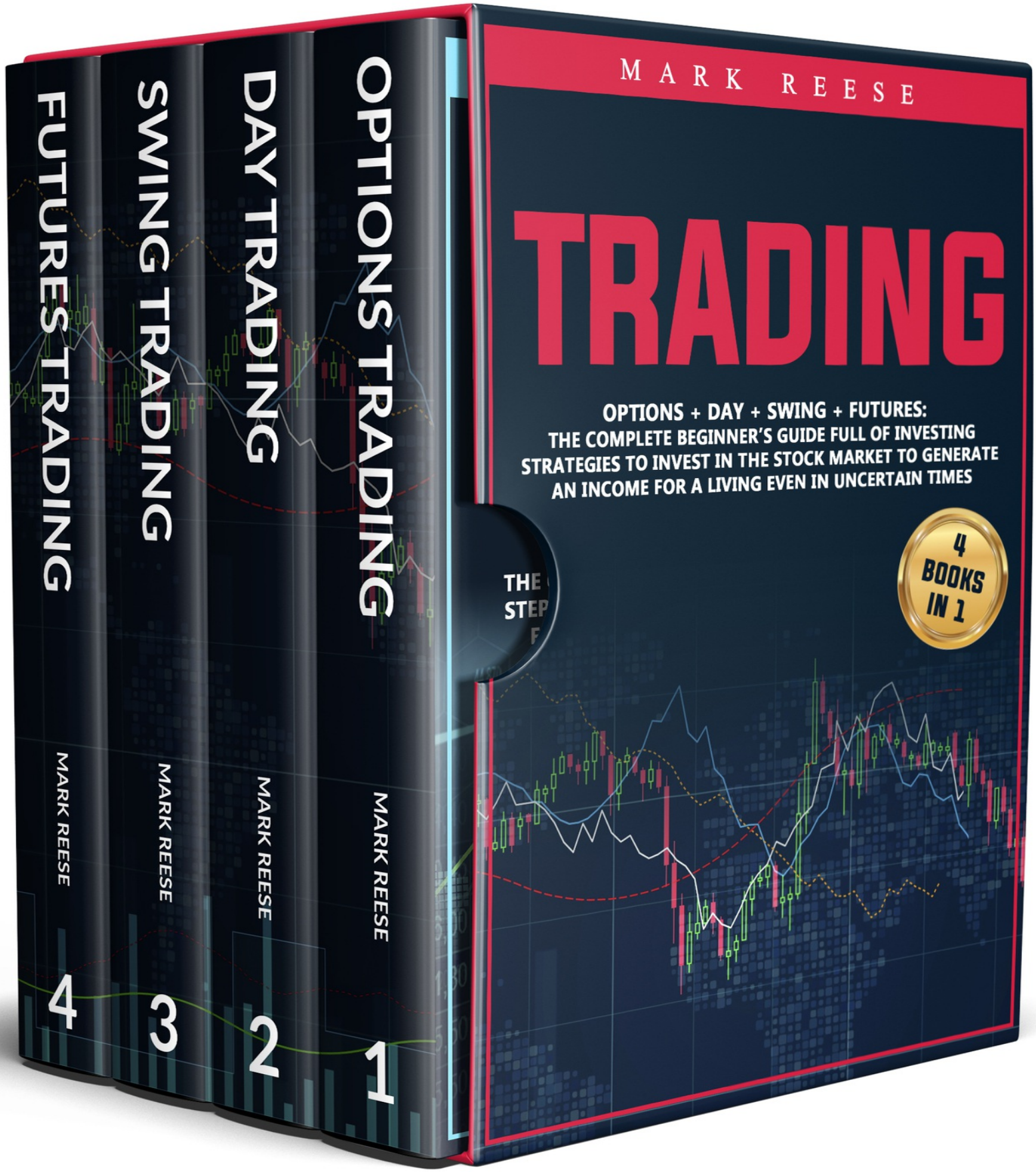

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1
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OPTIONS + DAY + SWING + FUTURES:
THE COMPLETE BEGINNER'S GUIDE FULL OF INVESTING STRATEGIES TO INVEST IN THE STOCK MARKET TO GENERATE AN INCOME FOR A LIVING EVEN IN UNCERTAIN TIMES
4 BOOKS IN 1

VISIT…



# TRADING

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## 4 IN 1:

Options + Day + Swing + Futures:
The Complete Beginners Guide Full of Investing Strategies to Invest in The Stock Market to Generate an Income for A Living Even in Uncertain Times

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**MARK REESE**

# THIS BOOK INCLUDES

## BOOK 1:
**DAY TRADING**
DAY TRADING STRATEGIES FOR BEGINNERS, OPTIONS FOR A LIVING, AND SWING OPTIONS

## BOOK 2:
**OPTIONS TRADING**
A BEGINNERS' CRASH COURSE REGARDING STRATEGIES, DAY TRADE FOR A LIVING, SWING, AND ADVANCED TRADING OPTIONS

## BOOK 3:
**SWING TRADING**
A GUIDE FOR BEGINNERS, OPTIONS STRATEGIES, AND TRADE SYSTEMS. STOCK OPTIONS AND FOREX TRADING

## BOOK 4:
**FUTURES TRADING**
FUTURES TRADING FOR BEGINNERS, INVESTING IN STRATEGIES, OPTIONS FOR INCOME

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# DAY TRADING

Day Trading Strategies for Beginners, Options for A Living, And Swing Options

**MARK REESE**

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# Introduction

Day trading describes as buying and selling a security within one day of trading. To benefit minor price changes in highly volatile stocks or currencies, they use significant levels of leverage and short-term trading strategies.

Day traders geared to activities that trigger market fluctuations in the short term. News-trading is a common technique. Scheduled reports are subject to consumer perceptions and market dynamics, such as economic indicators, company earnings, or interest rates. Markets respond when those expectations are not met or surpassed, usually with major, rapid moves that can help day traders.

A controversial activity, perhaps one of the most misunderstood subjects on Wall Street, is the benefits potential of day trading. Internet day trading scams have tempted amateurs to offer significant returns in a short period. The belief remains that this sort of trading is a get-rich-quick scheme. Without proper information, some people trade day in. Yet there are day traders who, despite —or maybe because of— the risks, make a good living.

Most experienced fund managers and financial planners shy away from day trading, believing that the gain isn't worth the risk in most situations. Those who do day-trade, on the other hand, insist there is a profit to make. Day trading is lucrative, but ultimately the performance rate is lower due to the difficulty and required risk of day trading in combination with the associated scams.

Day trading is not for everyone and entails significant risks. It includes an in-depth understanding of how the markets operate and various short-term benefit strategies. Although you remember those who struck it rich as a day trader's success, stories note that most don't — many are going to fizzle out, and others are just barely going to remain afloat. Also, don't underestimate the role that chance and good timing play—whereas ability is an aspect, even the most experienced day trader can sink a rout of lousy luck.

Let's first be specific on what day-trading isn't. It's not saving, which is the process of purchasing a share in an asset, which will ideally create a long-

term profit. How long is subjective, but for years' investors usually keep money, even decades. So they generally concern themselves with the undertakings they participate in and are searching for businesses that make good money, pay off debts on time, have a compelling product pipeline, and escape lawsuits.

On the other hand, day-trading entails buying and selling shares within the same day. Day traders also use borrowed money in highly traded stocks or indices to take advantage of the minor price fluctuations. They usually adopt the same philosophy as long-term investors: they seek to buy low and sell high in a somewhat short period.

If the benefit from the trader looks like small potatoes, note that day traders do not make one or two trades a day — they can make 25 to 30. Their gains thus compounded by increasing the number of trades. In general, day traders won't buy stock overnight to reduce their risks because rates can shift dramatically from one day to the following. News events and corporate announcements also trigger the market volatility, so traders have to be accessible and ready to respond at a time notice. Day traders act rapidly, making decisions in minutes, even seconds, unlike investors who may wait until rationality prevails or until additional information becomes available.

**CHAPTER 1:**

# How to Start Trading

Day trading is becoming a lucrative engagement in the commerce industry with recent technological advancement. Hey there, welcome to the stock market world. This end is strategically oriented and plenty of significant risks coming your way. Let's dive into some of the factors that are likely to be considered.

## The Capital Needed to Start Day Trading

Capital is so necessary to set the actual day trading ball on fire. Acquiring loans from different sites has been revealed to be so common among traders. With this glue on the mind, traders tend to be so careful with the amount of capital that they intend to commence. Traders ought to obtain ready money to monitor any kind of slight changes that are presumed to occur during the day.

Day trading requires a minimum account balance of $1000, but many providers and plenty of traders recommend $10,000 are not willing to risk 1% from the value. Also, the $1000 minimum amount that can implement can lead to your trading activities in being so not worthwhile.

Step by step kind of beginning is so vital because you get to acquire progress always and get to grow at a reasonable speed with messing things out.

## Choosing a Broker

Once you have set your mind on precisely what intend to trade, a broker should be following up in mind. Brokers are the navigators of several trading investment platforms. Bearing this I mind, we ought to be super perfect in choosing a broker because they reflect reliability, reputations, and expertise in your trading account.

Let us look at some of the ways that set to consider:

- **Decide On What You Will Be Trading**

Experts get their names by being suitable (perfect) in a particular field of

trading. A stocks broker may be so bad in FOREX trading and vice versa—all the best in picking the best and the right one.

- **Sourcing for Recommendations**

Sticking in mind that the actual amount of money to be used during trading is your own money, a wake-up call is assured, and a good broker who can't be dodging with your precious money is super needed.

Try to inquire your colleagues if you may have been in a spot or who they may have heard of good brokers. Try to also have some in-depth research from varieties of social media content, online on the investment platforms, discussion boards and also take plenty of time to examine their websites.

Once you get several references, don't hesitate to check on their trading platforms. How were their actions? Are there complaints? How many traders have they ever engaged? How long have they been doing this? Have they been following the rules and regulations needed as a broker?

- **Commission Rate**

Although the "perfect" broker is super needed as you begin day trading, consider in mind that this is also a new project as a whole. Consider the rates of commissions that are likely to be spent to avoid any losses from being made. Pick an economical one to save yourself.

- **Executive Speed**

Any delay of seconds can result in a massacre to a trader's profits. To prevent this, the broker should make sure that the trading activities are at a top-notch. The broker should be able to quickly spot any rapid changes that are likely to be incurred in the trading platforms.

- **Charting Strategies**

Getting great chatting tools and software is also fundamental. Make sure you are getting right trading strategies, reliable variable markets, and better software features to enhance good day trading

- **Paper Trading**

It's advisable to begin day trading with paper trading, where you won't have

to use your own money, though many brokers highly discourage this. Know where your heart takes you.

- **Technology**

So, is the broker up for the new technological advancements? What kinds of accounts do they deal? Does he/she have a real-time-data feed so that you can easily track and monitor trading activities? Which safeguard trading and Cybersecurity measures do they follow during trading? What kind of volumes of trading can they handle?

Much consider the kind update with the current technological happenings and pretty much informed.

- **Customer Service Provision**

Are they willing to offer customer service services? What happens when your system during mid-trade and it costs you so much? Are they going to support you to get much out of trading? Which process are they going to utilize during complaint resolution? Consider these before signing the contract because it's a big deal.

- **Safe, Secure and Regulated**

It's such a marvelous idea to inquire about the security of the broker in question. Inquire on how long they have been in business, their past work reports, what measures they have been using and their new significant standards on day trading.

Make sure they regulated by an agency and that they strictly value and consider the rules and regulations needed to be followed by any broker engaged in day trading.

- **Adequate Support**

Engage with brokers that are willing to provide massive support once there is a miss during your daily training activities. A few cents incremented on the broker's commission accounts is much worthwhile compared to hundreds of dollars' losses that are likely to be incurred on the bad days.

## Type of Market

Each kind of day trading demands a different type of day trading. Choosing the type of market to start with is super important, choose the most preferred.

Discover the tax implications likely to be incurred.

Inquire on how taxes revolve around profits. Engage with your financial adviser to let him or her explain how taxes handled. Are they going to cause devaluation on the made profits? Are they good news? How does that happen?

Be informed to at the end the trader can guess on the likelihood net profits to be expected.

Set a target, really motivating.

Setting a realistic trading target is going to manage and monitor your real cash big time. A specific goal put for big motivation. Work on that. Be for it big time. Remember achieving your target usually is tough because we all have really “dream” targets. Consistent losses will incur too, so prepare to lose some cash. Failure is never right though and will never be, so keep up champ!

## Create a Demo Account

Rehearsing has always been a good move as your head to be successful navigation. Set up a demo account that will help you master all the ropes and movements that are likely to be incurred. The market trends are one way of future taking master moves that are great chances for high profitability rates. Keep testing and practicing until you are sure that you indeed set to go. Examine the market.

Master most of the trading moves. It makes you informed and enhances specialization in a particular field.

## Fast Internet Connection

A constant, fast and reliable type of internet connection recommended. The unreliable internet connection can cause a miss in the market trends that can hinder the trading traces in a way leading to significant losses incurred at the end. Most of the users use a cable and ADSL type of connection. Remember that day trading does not recommend any unreliable source of contact.

## Choose the Right Stocks to Trade

Well, to be better in choosing the right kind of stock, doing some in-depth research on the current existing stock is way the first step. Get to know the type of stocks that are likely to perform well. Most preferably those are likely to achieve well on a day-to-day basis. Remember to at least try one or two different kinds of stock until you are so sure that you have picked out the right one.

## Plan a Notable Financial Figure

You will need to prepare yourself early enough on the amount of money that risked on the day trading business. It is mostly advised not to risk more than 1-2% of your account money to avoid future losses.

Another piece of advice to the beginners, stay away from trading on the margin until you set with enough moves and sound trading wisdom. It will save you some extra cash in time.

Venture into several day trading courses to get educated.

Before getting involved in a particular course of study, kindly consider the following tips:

- **The course should be taught by a professional**

You can acquire detailed, accurate, reliable, and up to date information. It will so motivate you in your trading journey.

- **Availability of educational support tools**

The presence of proper educational tools will give the learner an audience to readily grasp every fundamental piece of information. The professional should also be ready to face time or live chat with any student who needs excellent help.

- **Based on your particular field**

Well, we agreed on picking out a particular trading sector field and working on it. Well, your educational source should go hand in hand in whatever area that you have selected. Make sure that the learning source is detailed to acquire a more significant piece of information.

- **High rated learning the source**

A perfectly detailed piece of learning information entails that a lot has covered. Go for that. We have to make our day trading journeys so well, and then meaning that our start-off spots should be right.

Putting all these in mind, take a look at some excellent sources for beginners:

- Books and journals
- Online courses for day trading
- Applications for games
- Beginner level books for day trading

## Perform a Personal Audit

Day trading is much of analytical work. A clear understanding of what is going to take place is so needed. Day trading is not a get-rich-overnight thing. It’s a step by step learning project that involves simple to sophisticated tactics that get to be implemented by the trader during his/her day trading journey.

## Set The Right Strategies

First things first, getting to know what you are working on is an essential activity. What do I want? How are you going to achieve all these? Is it worth it? How long is this going to take? What are the possible outcomes?

A little reminder, a proper strategically outline calls for hard work and patience to achieve a singular goal.

**CHAPTER 2:**

# How to Read the Main Tools and Charts

One thing to always remember is - the charts don't lie. The charts represent the money on the table at the end of the day. That is why they are of significant importance.

Charts are a widely used tool in trading and investing to see the past performance of the stock quickly, the highs, the lows, trends, moving averages, trading volume, and much more.

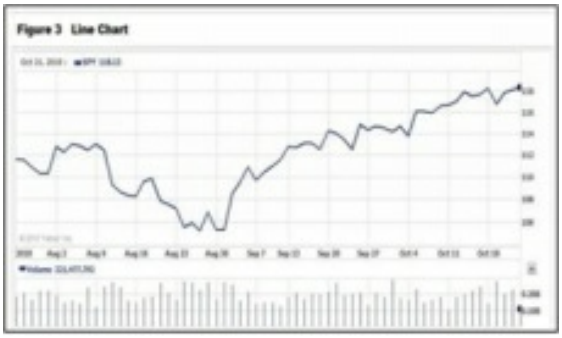
Charts really are the "footprint of money." What some talking head on a financial news network might say becomes immaterial when you can look at a chart and see what the 'money' is saying. That's what is essential. Seeing the money on the table and understanding by the propensity of evidence who was buying and selling and how serious they were.

## Charts in Detail

We will start with a single Line Chart and Bar Chart and progress from there.

A line connecting following closing prices is the purest form of charting. These line charts are useful for trend analysis going back 2 – 5, or even 10 years or more.

See Figure 3 below:



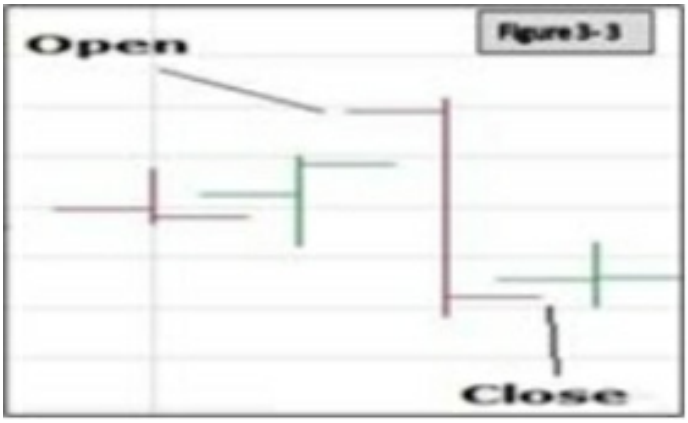

The chart below is a bar chart and is one of the most basic forms of charting. Even in its simplicity, we can determine the general movement of the stock, and draw a reasonable conclusion as to the possibility of future movement.

See Figure 3-2 below:




As you can see, the stock was trading in December (center of the chart) in the $35 to $40 range and over the course of 6- months it doubled in price. This was obviously during the tech boom of the late 90s or early 2000. Thus, over a 6-month period of time, the primary trend was up.

Note that each day in the above chart is indicated by a separate ‘bar.’ Each bar has a little ‘tick’ on the left side indicating the opening price that day, and the little ‘tick’ on the right side of the bar indicated the closing price for that day. The length of the bar tells us the trading range for that particular day, as noted by the arrows on the above chart. Here is a closer look at how the daily bars on a chart indicate the opening price, the closing price, and the trading range for the day.



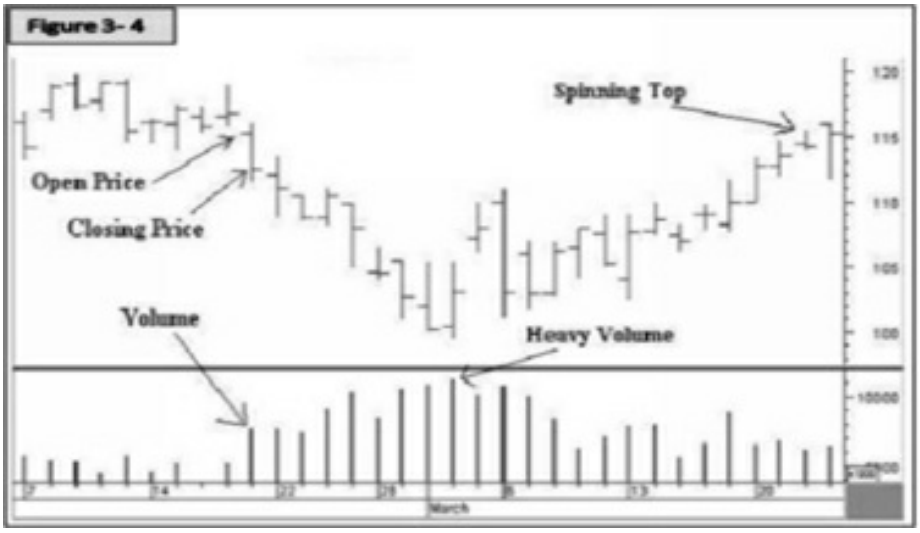

Remember this as we progress.

Also remember that whether you are looking at a daily, hourly, or even a weekly chart, the trends and pattern formations will tell you pretty much the same thing in relation to the chart you are viewing. Meaning, if you are looking at a daily chart, then the general trend should be viewed as a daily basis. In other words, do not make decisions for long-term investments based on what you see on a 5-minute chart or an hourly chart. And don’t make day-

trading decisions based solely on a one-year chart.

For instance: A 3-month chart shows the daily bars for each trading day represented on that chart. And, a chart of one single trading day will show 1-minute, 5-minute, or possibly 10-minute bars. But each bar represents its open, close, and the trading range for its respective time period.

The construction of a daily bar chart is simple. Fortunately, these are free on the Internet and constructed for you. The vertical bar is drawn from the day's high to the low. The tick to the left is the opening price that day; the tick to the right is the closing price.




Volume bars are drawn along the bottom of the chart. See these indicated by the arrows on the above chart.

These are constructed for you, but it is vitally important that you understand what each bar and their several ticks mean. These will be used in detail as we progress.

## Candlestick Style Chart

Another type of charts, are the candlestick charts. Although the necessary information is the same as the bar chart, they are widely used because of their ease in quickly determining the information. Candlestick charts are preferred by some because the view is easier to see the color variations indicating up and down days.

See Figure 3-5 below:




The narrow wick of each candle is the day's trading range. The fatter portion, the body on the candle, is the area between the opening price and the closing price. Open candles are positive, meaning the stock closed at the top of the open body. This is the same as the bar chart showing the 'Tick' on the right side of the bar as the closing price. The darker candles are negative, meaning the stock closed at the bottom of the body. In other words, it opened higher for that day and fell to close at a lower price. Let's look at the difference in bar charts and candlestick charts. Candlestick charting gives precisely the same information as the bar chart as you can see in the following picture; the candlestick is more colorful and more natural to assess the information quickly.

The following is a comparison of Candlestick vs. Bar Chart.




## Candlesticks Defined

### What does the Candlestick look like?


The day's highest trading price
The opening or closing price
If the stock closed lower than it opened the body will be black or red. If it closed higher that day, the body is white or green.
The opening or closing price
The lowest trading price

**What does Red (or Black) Candlestick Mean?**

The color of the candlestick tells us whether that candle was formed by a positive trading day (advance in price) or a negative day (decline in price). If the closing price is lower than the day's opening price, then the body of the candle is red or black. See the following picture:




Note: Most charting software allows you to customize your charts to reveal your desired colors. This enables you to choose your personal preference as to the color for your OPEN candles and for the CLOSED candles.

**How about the White Candlestick?**

The white candle, also known as the "OPEN" Candlestick, shows the price move up.

The bottom of the white body represents the opening price and the top of the body represents the closing price.

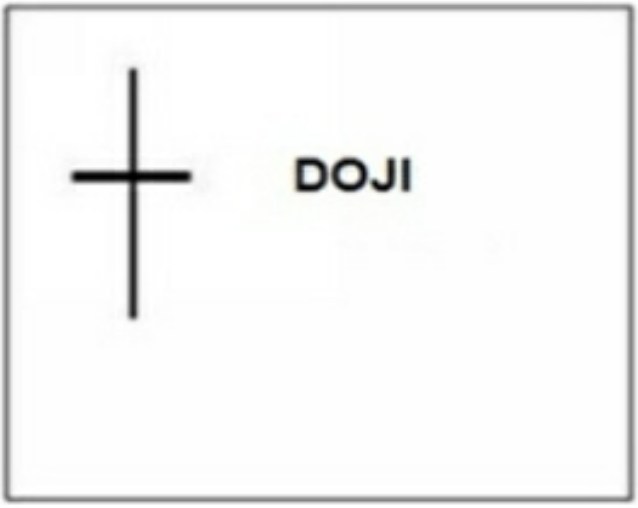
Thus, this candle will represent a positive "CLOSE."




In the other comparison, you can see that the Bar and Candlestick charts would say the same thing. They simply look different.

Let’s look at some very familiar ‘indicators.’ Candlesticks form based solely on the price movement and many of the candles are very telling. They are great indicators of what is likely to happen soon concerning the price of the stock. Many of these candles have been given names to identify them. So let’s look at each one and learn the importance it has when seen on a chart.

## DOJI




DOJI is a name for candlesticks that form when a stock's opening price and closing price are virtually equal. This DOJI tells us that during the trading day, the stock moved higher and lower and neither the buyers nor sellers were more prominent. It says the stock traded up and the sellers stepped in and traded lower and the buyers stepped in. When just looking at a DOJI it appears very uneventful. Still, when combined with other candles and trends, it can be very telling.

When thinking in the perspective of a market trend moving higher or a downward trend moving lower, the DOJI is a very telling sign that the number of buyers and sellers has become equal.

Therefore, after the market or stock has been in a trend, either up or down, and suddenly a DOJI is formed, then this tells us that since the buying and selling has equaled out — then a reversal of the current trend may be ahead.

## The Shooting Star




The Shooting Star is a Bearish candle that forms after an advance in the stock or index price. Try to think of it in this manner.

The price has advanced for several candles, or days, and tries to continue the advance. It opens and trades higher, creating the tall wick on top of the candle, but then the sellers take over, forcing the price back down to close near the opening price. This is an early indication that the advance has lost its momentum.

Technically, according to the above picture, the closing price would need to be below the opening price.

However, that is not always the case. Meaning, if you simply switched the open and closing prices on the above picture, it would still indicate an early warning for a reversal, maybe just not as pronounced as the close that is lower than the open. But it would still be a warning sign.

## The Evening Star

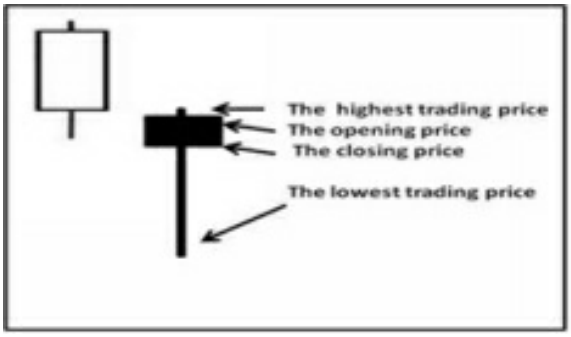



By itself, the DOJI at the top of the formation would just be a DOJI, meaning the opening and closing prices were virtually equal. But when the dark candle forms the following day indicating a change in direction, then this DOJI becomes what is called an Evening Star.

The large white candle preceding the DOJI indicates buyers jumping in after a significant advance. The Evening Star indicates inability to move higher, and the Bearish Engulfing candle the following day confirms the sellers have entered the market.

Another very important Candle is called the Hammer.

## The Hammer




The Hammer is normally found at the bottom and forms when a stock has been in a downtrend and finally reached a support level. It is very similar to a mirror image of the Shooting Star at the top of an advance.

When this Candle forms at the top of a pattern after an advance, it is called the Hanging Man. Both look very similar and can have either a positive or negative body.

Some prefer one, some prefer the other. The two charts say the same thing – they just simply look different. So use whichever one you prefer.

CHAPTER 3:

# Futures Trading

The most important thing a futures trader learns is that the buyer never actually takes possession of the commodity. Professional investors who have traded in pork bellies would not know what a pork belly looked like if a truckload was dumped in their driveway. You don't need to invest in a refrigerating plant to trade frozen concentrate orange juice, and you don't have to acquire grazing land to invest in cattle futures.

What is being traded back and forth is a contract that specifies a date sometime in the future when the holder of the contract is required to deliver a quantity of the commodity for a predetermined price. In that futures contract, everything about the transaction is spelled out — the quantity and quality of the commodity, the exact price per unit, the date it is expected, and how it will be delivered. These are real-life transactions, and there are real sellers and real buyers and real products involved. Still, unless there is a mistake, you will not be the last one holding the contract and responsible for its execution.

### The Futures Contract

A futures contract is a legal agreement at that, to buy or sell a specific instrument at a preset price at a specific time in the future. The futures contract's underlying asset could be stocks, commodities, currencies, bonds, and other instruments. The terms of a futures contract are standardized in quantity and the delivery date. The exchanges facilitate trading between buyers and sellers. To trade futures, traders need to put up cash, commonly referred to as margin in futures trading. A proper margin must be maintained for the life of the trade.

## Margin

Traders need to have sufficient margin to trade futures. This will usually depend on the kind of future that is being traded and how many contracts. To fully understand the margin, there are three different types of margin to understand.

### Initial Margin

The initial margin is the amount that is required to execute a futures trade. This amount is typically set and facilitated by them. The real exposure of the trade can be greater than the initial margin. If the loss of trade becomes greater than the initial margin, it may prompt a broker's margin call. If a broker issues a margin call, traders are expected to post margin to bring the account back up. Futures accounts “marked to market” daily by brokers. This means that futures contracts are re-evaluated at the end of each trading day. The profit and loss are added and subtracted from the margin daily.

### Example of Initial Margin

The exchanges set initial margin for futures, and this amount usually varies from 5%-15% of the contract. This can also vary from broker to broker. Let’s use the following example.

A trader wants to get into a wheat contract for $50,000, and the initial margin percentage is set to 10% for wheat futures contracts.

The initial margin amount the trader would need to post is only $5,000. The important thing to note about the initial margin is that it can be subject to change by the exchanges if volatility picks up.

### Clearing Margin

Clearing Margin is money that is required for brokerages and institutional firms to have on hand to complete futures transactions with their clients. It is a form of capital protection for brokers to have to ensure client trades are executed.

### Maintenance Margin

The maintenance margin is the minimum amount of cash a trader must maintain in their account to keep a trade open for a futures contract. If the net value of the account falls below the maintenance margin, this will prompt the broker to issue a margin call. Once a margin call is issued, the trader must post more funds to bring the account value above to the minimum.

## Settlement in Futures

When a trader enters into a futures position, he or she has three different options as to how they can settle the trade.

### Straight Cash Settlement

This is most common when a certain future doesn’t have an option for physical delivery.

### Physical Delivery

In today’s day, physical delivery is very uncommon. Less than 1% of futures contracts take physical delivery of the underlying asset. If it does happen, the contract's amount specified is delivered by the seller of the contract to the actual exchange. It can happen with commodities, but it’s very rare.

Let’s say, for example, you had one contract on wheat futures. The standard contract size for wheat futures is 5000 bushels. When the contract expires, you can take physical delivery of 5000 bushels of wheat. Even though most brokers will only do cash settlements, it is worth noting that there is a very small percentage that takes physical delivery. I don’t know about you, but I prefer cash over wheat any day.

### Expiration

The futures contract's expiration date is when that futures contract stops trading and gets the final settlement price for that specific period. Most brokers typically expire a trader’s position by closing their trade out and giving them the option to re-open it for the new contract month and at the new contract price.

### Regular Closeout

This is the most common closeout. A trader closes out their futures position at the current market price. Many day traders use a regular closeout and typically don’t hold long-term positions until expiry for futures.

## Different Types of Futures Contracts & Codes

A futures contract can technically be created on anything. All you need is two different counterparties to create the transaction. They don’t necessarily have to happen through the facilitation of exchange. It is best to trade futures that are facilitated and standardized by an official exchange. Since futures are a standardized contract, they have specific symbol structure and abbreviations. Futures contracts can be traded on the following markets.

- Agricultural

- Currencies
- Equity Index
- Financial
- Meats/Dairy
- Metals
- Softs

It is important to note some of the futures codes and abbreviations that you might see on your trading platform. Below are the abbreviations for each contract month.

- F= January
- G= February
- H = March
- J= April
- K=May
- M=June
- N=July
- Q= August
- U=September
- V= October
- Z= December

Getting familiar with how contracts work is important before beginning to trade them. It is also very important to remember when certain futures contracts expire before actually beginning to trade them. Futures contracts are a very risky trading instrument but can be the fastest and most liquid instrument to trade. Futures contracts tend to have great liquidity, low spreads, and predictable volatility.

CHAPTER 4:

# Which Market to Trade in and Which Broker to Use

If you are brand new to trading, you are probably curious about how you would sell or purchase security. Any time that the market is open, there are going to be two prices for any security that can be traded. There will be a bid price and the asking price. The bid price is what buying or purchasing traders are offering to pay for that stock right then. The asking price, on the other hand, is the price that traders want to sell that security.

You will quickly notice that the bid price is always going to be a bit lower simply because the buyers want to pay less. The asking price is still going to be higher because sellers want more for their holdings. The difference between these two prices is known as the spread.

The spreads that are found will vary for each stock, and they can even change throughout the day. If a stock doesn't have a ton of buyers and sellers, then there could be a more significant spread. When there are more buyers and sellers, then the spread between these two prices will be much lower.

As a swing trader, when you are ready to enter into a position, you are going to have two choices. You can either go in or pay the price that the seller is asking for right away or you can place a bid that is at or below the bid price. Paying the asking price immediately can be beneficial because it ensures that the purchase transaction is completed or filled but may mean that you will pay more for it. When a trader places a bit at or below the current bid price, they may be able to purchase at a lower price. But there is the risk that no seller will want to sell for the lower price, and the order may not get filled.

Then, you can enter into the trade and complete the rest of your strategy.

## Investment and Margin Accounts

There are two types of accounts that you can choose to open to trade stocks. The two main options include the margin account and the investment account. With a margin account, you can borrow against the capital that you have placed in your account. The investment account, on the other hand, will

allow you to buy up to the dollar value you hold in that account. You are not able to spend more than what you have put in that account at a time.

When you decide to open up a margin account, you may be able to borrow money from the investment or brokerage firm to help pay for some of your investment. This is a process that is known as buying on margin. This can provide you with some advantages of purchasing more shares that you would be able to afford if you just used the capital in your account, and it can help you leverage to get more profits with your money.

However, there is a catch with this one in the form of more risks. When you borrow the money to make your investments, there will come the point when you must pay the loan back. If you earn the profits that you think you will, it is easy to pay this back. But, if you lose out and make the wrong predictions, you are going to have to find other ways to pay the money back. Making investments with leverage can magnify the percentage losses on your money.

As a beginner, you should stick with a regular investment account. Trading on margin can increase the amount of risk that you are taking on in your trades. This may be tempting because it can increase your potential profits, but there is a lot more risk that comes with it as well. You will do much better going with an investment account instead. This way, you can pull out the money that you are comfortable with rather than hoping that you make a right prediction in the beginning when you are learning.

## Picking out a Broker

If you have already gotten into other forms of trading in the past, then you can work with the same broker that you already have. But, if you are getting into trading and this is the first one you have done before, then you will need to search to find the right broker for you.

There are many different brokers out there, and many of them can assist you with swing trading. The biggest thing that you will want to look at is the commissions and fees that each broker assesses against you. Since swing trading times are relatively short and you will enter into and out of trades within a few weeks at most with each trade, you want to make sure that the profits you make aren’t eaten up by the commissions to your broker.

There are different methods that the broker can use to come up with their

fees. Some will charge a fixed rate for the whole year. This often works well for long-term trades and probably won't be an option available to you since you will make more trades. The two options that you will most likely deal with include a fee for each trade or a fee based on how much profit you earn.

Find a broker who will earn a fee based on your profits. This way, you are not charged a ton if you make a bunch of trades during that time. If you earn a good profit, you will have to pay a bit more because of the percentage. If you receive less on one of your trades, then you won't have to pay the broker as much as you did before.

Before you enter into any trade, make sure that you discuss the fees with your broker. They should be able to outline their payments and can discuss with you where your money will go when you work with them. This can help you to get a good idea of how much you will spend based on how much you earn, how many trades you decide to enter into, and more. Get the commissions and fees in writing, along with any other agreements that you and the broker and their firm agree to protect you.

## Picking out How Much You Want to Invest

Since we have already know the importance of working with an investment account rather than trying to do the trading on margin, you will need to decide how much money you would like to put into your account.

First, talk with your brokerage firm and decide how much you need to put in to meet their requirements. Some brokerage firms will ask you to spend a certain amount or keep a certain amount in your accounts at all times in order to trade. If your chosen firm has that kind of requirement, then make sure that you put in at least that much. Putting in more is up to your discretion.

If there isn't a requirement for a minimum, it is best to start out by putting in an amount that you are comfortable losing. No one hopes to lose money on any of their trades. But it does happen, especially when you are a beginner. Putting in just the amount that you would be willing to lose if something goes wrong can help to reduce the amount of risk that you are taking on.

Getting started with swing trading can be exciting. This is a fun type of trading that moves quickly and can help you to earn a good profit in a short amount of time but still doesn't require you to spend all day on the computer

watching how the trade is going. By following some of the tips above, you will be all prepared to take on some of your first trades with this strategy.

**CHAPTER 5:**

# Utilizing Binary Options

Currently, binary options are trendy among investors working on the Internet. There are a lot of rumors and other extremely conflicting information about them. Thus, binary options for novice traders, on the one hand, offer excellent prospects; on the other hand, they pose a danger.

Beginner traders should remember three universal truths:

- binary options can become the basis of your financial well-being;
- easy money is just an element of advertising from brokerage companies;
- success is achieved only by those investors who are willing to work hard for months and years.

## Essence of Binary Options

We are talking about a simple financial instrument that anyone can use, even without special skills and knowledge in exchange trading. Its essence is to make a forecast on the direction of the movement of the value of the selected investment asset.

In other words, the trader must choose to increase or decrease the price of, say, the currency Euro/American dollar (EUR/USD) after a predetermined period called the expiration period of the binary option. If the forecast is accurate, then the investor will earn 70–80% of the transaction amount. If it turns out to be incorrect, then the entire amount delivered will be lost.

It should be understood that when trading binary options with one of the many brokerage companies, the assets themselves are not acquired. That is, the money of the trader, regardless of the amount of the transaction, does not leave the broker's website. However, this does not stop making money on the investment instrument in question.

A beginner should trade binary options using the minimum possible rates of 1

dollar. Do not rush to play big. First of all, you should acquire the necessary experience and trading skills.

Also, you need to be aware that in this industry, the earnings of successful professional traders and the brokers themselves are provided by the lost investments of loser investors. In order not to become a representative of the latter, it is necessary to work hard and hard.

- **Do not believe in a freebie**

All binary options brokers attract new customers with incredibly easy money. However, the reality is much less optimistic. The number of loser traders will always significantly exceed the people who have achieved success in this field. Otherwise, such financial activities will cease to be profitable to their creators.

To obtain a stable profit, the trading system used by the trader must have an efficiency of at least 60–65%. Otherwise, it will get difficult for you to cover the loss from unsuccessful transactions.

Also, it should be understood that most of the trading indicators and strategies laid out in the public domain, without your refinement and twist, will not be able to provide a trader with a stable income.

If you want to get guaranteed high results, you will have to understand:

- reasons and directions in the movement of financial markets;
- the impact of news on stock trading;
- the basics and methods of conducting technical analysis;
- selection and personalization of trading indicators.

Only by independently following the described path from beginning to end, can an investor succeed.

## Popularity of Binary Trading

Nothing is surprising in the popularity of binary options among novice traders. The whole secret lies in their incredible simplicity. Indeed, the entire task is that the investor should just guess the movement of the price of the asset. Also, brokerage companies tactfully hold back that many take years to learn this.

Also, an alternative to binary options is real trading on currency, stock, or commodity exchange. This area of investment is not an example of more complex. To work on transactions, a trader has to deal with a vast array of information and learn hundreds of particular terms. For instance, you need to deal with pips, take profits, and stop loss, and so on.

## Principle of Binary Options

First of all, the trader needs to choose one of the investment assets available from the broker used. This can be a currency pair, company stocks, indices, or commodities. This is done in 2 clicks.

Then you need to decide on the direction in which the quotes of the underlying asset will move and set the expiration date (time for which the transaction is concluded).

Now you need to press one of the two keys: Call or Put. A call should be chosen if the investment asset has risen in price after a specified period. On the contrary, Put is responsible for lower quotes.

After the start of the binary option, we are waiting for its execution. For example, if the expiration period was 5 minutes or M5, then after this time, we either earn a successful forecast or lose the money delivered.

## Bulls and Bears as a Trend Direction

The trend on the stock exchange is the direction in which the asset price moves at a particular time interval. It is easy to guess that quotes can go down, go up, or standstill. The latter scenario is infrequent and can occur only in the shortest segments.

When the price of an asset rises, it is customary to call this trend upward or bullish. The bulls with their horns, as it were, throw its value up.

It is incredibly crucial for any binary trader to be able to determine what the succeeding trend will be. Indeed, in this case, he is guaranteed to make a profit. True, for a beginner, this task will be challenging for some time.

## When it is More Profitable to Trade

Binary options transactions are concluded for the movement of the price of exchange-traded assets. Naturally, trading is focused on the operating time of the largest world exchanges. If desired, the trader can trade around the clock

for five business days. At the same time, there are certain time intervals at which you can achieve better results.

The most auspicious periods are:

- from 11.00 to 12.00;
- from 16.00 to 19.00;
- from 3.00 to 9.00.

All intervals are given in Moscow time. There is no secret in these segments. They represent the time of intersection in the work of various major exchanges: European, American, and Asian.

Besides, you need to understand that a particular day of the week also affects the success of binary options trading. The best trading days for professional investors are Tuesday and Wednesday.

## How to Choose an Expiration Period

Currently, most binary options are for one minute to half an hour. There is an interesting pattern: the less experience a trader has, the less a short expiration period he prefers.

Indeed, it seems to beginners that the optimal duration of a binary option is 60 seconds. This position has a clear rationale. Indeed, using such an expiration period in work, one can conclude much more transactions during the day than when working on longer time intervals. It is.

The problem is different. The shorter the expiration time a trader works, the more serious the investment risk. In fact, at 60-second intervals, price movement is complicated to analyze and predict. Consequently, the percentage of successful transactions is reduced.

It is generally accepted that informed and high-precision trading is carried out with expiration dates M15 and M30. That is, at 15- and 30-minute intervals.

### Do not confuse expiration with a timeframe

The concept of a timeframe refers directly to the settings of the trading chart. This is the name of the period that will be described by one Japanese candle or bar.

There is a general rule that beginners should be guided by. The timeframe

should equal the expiration date. In other words, if you make a deal for 5 minutes, then in the chart settings, you should choose the same timeframe.

## Trading Chart

For the convenience of trading, the underlying asset quotes are usually traced within the framework of trading charts. This method is the most intuitive and convenient. Each of the binary options brokers on the market offers its customers its version of such a map. However, their problem is that these electronic trading floors have an extremely meager set of indicators for technical analysis.

To solve this problem, most professional traders resort to the following trick. They get used to working on at least two windows. The first displays the site of their brokerage company, where they only enter into transactions. The second displays a full-fledged live schedule.

A legitimate question arises — where to get it? We recommend our readers to get their version of free trading for the Meta Trader 4 exchange trading. It has in its arsenal a live schedule that fully meets all the highest requirements.

Besides, you can use the services of several free online services:

- Trading View;
- Free Stock Charts;
- Think or Swim;
- Ninja Trader.

### Charm of Japanese Candles

Japanese candles are usually called a variation of the most popular type of chart for trading binary options. In addition to it, there are also linear and bar. However, they are less convenient and much less commonly used by traders.

So, each Japanese candlestick demonstrates the direction of movement of the asset value in each time interval or timeframe. If the minute timeframe is selected, then every Japanese candle on the trading chart will display the price behavior for 60 seconds.

Candles in 2 colors are presented on any chart. Some display an upward price movement, while others show a downward motion. As a rule, bullish candles

are green and bearish red. However, some binary options brokers do not observe this point. There is nothing to worry about because the specific choice of colors does not affect anything.

CHAPTER 6:

# How to Evaluate and Compare Stocks and Other Securities

## Mutual Funds

Shared funds pool several investors' properties, supplying purchasing power that surpasses that of all but the wealthiest individuals.

Suppose you have $10,000 to invest. If you try to spread out the cash Around 50 stocks, commission costs alone may cripple you. Yet spend the same $10,000 in a mutual fund that holds 50 stocks and you've got that. Buy a small piece of each of those companies without the cost or trouble of acquiring them separately.

Professional money managers decide when the fund sells and buys, and all of the financiers either win or lose together. If shared, the investment pays 10% in one year, and every person who holds the fund at the beginning of that year will see the fund—very same 10% return on his investment.

At the end of 2012, financiers worldwide had $26.8 trillion purchased Mutual funds, with $13.0 trillion of these assets in the hands of the U.S. cash supervisors, according to the Investment Company Institute (ICI). Of that, $13 trillion bought the U.S. shared funds, 45% remained in stock funds, and 26% were in bond funds.

Stock and bond mutual funds can be found in two tastes:

### Passively handled funds

Frequently called index funds, quietly managed funds try to match the performance of an index.

### Actively handled funds

Unlike passively managed funds a proactively handled funds purchase and offer securities to exceed the return of their standard. Generally, index or index party. It's hard to overstate the value of mutual funds as a financial investment automobile. More than 92 million people own in the United States alone shared funds, frequently through retirement plans. Additionally, most

401 (k) retirement plans invest employees' possessions in pooled funds, so if you take part in a company-sponsored retirement plan, you probably currently own funds.

**Pros:**

- **Professional management**

The majority of individuals do not know much about evaluating financial investments because of a lack of interest, absence of training, or both options.

With almost 9,000 standard mutual funds on the market, practically any investor can find a fund to resolve her investment objectives.

- **Diversification**

Portfolios containing a range of stocks or bonds tend to be less unpredictable than an individual stock or bond. Mutual-fund supervisors utilize their purchasing power to acquire numerous securities, which, most of the time, supply diversity.

**Cons:**

Every shared fund charges fees. Remember that specialist you worked with when you purchased the mutual fund? Some funds also charge costs called loads, gathering additional money to compensate for the salesperson or investment company.

- **Complacency**

Mutual-fund investors typically presume that considering that they have a professional handling a diversified basket of stocks, they can relax and relax. Don't make that error.

- **Poor returns**

Many academic studies recommend this pattern isn't brand-new, which fund fees should have much of the blame. While the persistent underperformance shouldn't scare you away from shared funds, it needs to hammer home the significance of choosing your money wisely.

## Exchange-Traded Funds

According to the ICI, by the end of 2012, creditors had invested around $1.34 trillion in exchange-traded funds commonly called ETFs. ETF possessions correspond to barely more than 10% of the value of standard shared funds, but these types of financial investments continue to grow in appeal. ETF possessions have more than tripled considering in 2006, while the number of ETFs on the market increased to 1,239 in 2012, from 359 at the end of 2006.

ETFs operate much like mutual funds because they blend the resources of many financiers to acquire a basket of stocks, bonds, or both. ETFs vary from traditional shared funds in a couple of important ways:

**Switch on platforms**

As the name suggests, these securities are traded on almost the same markets as stocks. ETF rates change from second to second, just like stock prices.

**Mostly index funds**

While a couple of ETF managers actively handle their funds in an attempt to top standards, the bulk of them tracks indexes.

**Greater openness**

Unlike traditional mutual funds-- which the SEC requires to divulge their holdings quarterly-- ETFs need to disclose daily. Considering that indexes don't change their holdings typically, a lot of ETFs don't either.

**Pros:**

- **Convenient trading**

Unlike the way shared funds, reprice at the end of the day and trade only at that cost during the following day, ETF costs rise and fall intraday like stocks.

- **Hedging**

Financiers can purchase and sell options on ETFs, just as they can on the majority of Inventory. Starting buyers will probably avoid stocks, but the flexibility to buy and make choices. ETFs permit has contributed to their popularity.

- **Trading costs**

Numerous brokers charge more to trade mutual funds than stocks. When investors buy or offer exchange-traded shared funds, they pay the same commissions charged for stock trades.

**Cons:**

- **Fund costs**

Bear in mind that every shared fund charges fees. Since ETFs trade like stocks, investors often treat them like stocks and forget about those charges. And ETFs rarely draw much attention to the fees they gather.

- **Selection**

Many ETFs track indexes, indicating they're passively managed. While some ETFs use active managers, financiers looking for active management will discover a couple of choices amongst ETFs.

- **Viewed complexity**

While ETFs appear like mutual funds in the majority of aspects, many investors avoid them. A 2010 survey by Mintel Compere Media, a consulting firm, found that almost 60 percent of financiers decided not to buy ETFs because they did not understand how they operated.

## Certificates of Deposit

Standard Deposit Certificates (CDs) serve as enhanced savings accounts. Investors lend money to a bank that then consents to pay a fixed interest rate — usually for a term of 5 years or less.

Whereas creditors can withdraw cash from a savings account at any time, CDs need to keep the bank's funds until the date of maturity. These tend to pay higher interest than traditional cost-savings plans because of this limitation.

CDs can't change any of the other financial investments pointed out. They supply you with a way to produce more interest on your money holdings than you’d obtain from a bank cost savings account or a brokerage account.

**Pros:**

- **Security**

Like other bank accounts, CDs are guaranteed for up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) in the event the bank stops working. Brokerage accounts do not receive FDIC protection, though the Securities Investor Protection Corporation (SIPC) does provide similar, if less extensive, defense.

- **No fluctuation**

Since your funds remain in cash, they won't decrease in worth.

- **Simplicity**

If you understand cost savings accounts, you already understand much about how the CDs running.

**Cons:**

- **Low is returning**

Although CDs usually deliver more interest than bank savings accounts, they will pull all the other investment groups mentioned over the long term.

- **No liquidity**

CDs tie up your money for some time. You can access the cash if you need it, but you'll pay an early withdrawal penalty or forfeit some of the interest.

- **Separate accounts**

Many investors buy stocks, bonds, and shared funds from institutions other than banks. If you keep your money in a bank CD, you must keep it at the bank, which indicates you can't redeploy it to buy stocks or bonds up until you move the money to a brokerage account.

## Alternative Assets

When you dip your toe into the market, you may hear about different investment options, including the following:

Nearly 100 commodities trade on markets worldwide. Financiers can gain commodity exposure by acquiring stock in a business that deals with those products, or they can invest straight via a futures contract. Futures contracts allow investors to purchase or offer products and other assets for

predetermined rates in the future.

These derivatives enable stock or ETF financiers to bet on whether shares will rise or fall without purchasing Shares themselves. Suppose the stock trades are worth $50 per share. If the stock is $55, you can either buy the stock at a discount rate or sell the call option at a profit.

### Hedge funds

These entities pool financier money like shared funds do, but they tend to pursue unusual or esoteric methods. Hedge funds, gently managed and often deceptive, frequently handle massive threats.

### Precious metals

Investors purchase valuable metals as a hedge against inflation, or as a backstop to safeguard wealth versus a disaster, assuming that when catastrophe wrecks the monetary markets, metals such as gold will retain their value.

### Antiques

While financiers can generate income in antiques, many lack the marketplace competence to profit regularly.

Of course, plenty of financiers value the inflation protection and total-return potential of real estate and would like to purchase. Since some estate cost so much, a couple of people have funds to invest straight in the property beyond their houses. These companies purchase, offer, and handle real estate, and their trust units’ trade on exchanges like stocks.

## Weighing the Options

No matter how completely you examine the choices for prospective investment, how much caution you take in crunching the numbers, how much time you take to research the stock exchange, and the forces that impact it, you're going to make errors. A great deal of them.

Extreme boasting about returns and success rates is among the best methods a newbie can find the posers. Boasters end up being especially aggressive during bull markets-- when lots of stocks are hitting brand-new highs. If you're listening to the wrong voice, you're going to end up high, dry, and perhaps ashamed when the market corrects.

Before you buy into some pundit's sure-fire strategy, do some of your work.

## Stocks

Common stocks supply financiers with an ownership interest in a company. Shares of stock represent business equity and are called equities. Financiers can purchase and offer stocks on exchanges entities that exist mainly to produce a market for the shares. Stocks trade continuously during business hours: 9:30 a.m. to 4.00 p.m. Eastern time most weekdays with prices changing from 2nd to second.

As the value of business fluctuates, so does the cost of an investor's stock. Over the long haul, stock rates tend to rise when companies increase their earnings and sales. However, in the short-term, stocks can gyrate moved by things like total financial patterns, news from rival companies, government action, and other aspects.

At the end of August 2013, Microsoft shares sold for $33.40, with about 8.44 billion shares outstanding. If you increase the number of shares by the per-share cost, you get $282 billion, the stock's market capitalization, frequently abbreviated to market cap. A financier acquires 50 shares of Microsoft for approximately $1,670 would own a small portion of one of the world's largest companies. When more people wish to purchase a particular stock than to offer it, prices tend to increase. As any economics book will tell you, when items end up being scarce and the demand for them increases, prices often increase in reaction.

**CHAPTER 7:**

# Technical Analysis

Technical analysis is basically a strategy that is going to be used to help us evaluate investments and identify some of the different forms of trading opportunities by looking at all of the statistical trends that have been gathered up over time with the trading activity. The trends that are sometimes studied here are going to include volume and price movement.

Unlike what we are often going to see when we work with a fundamental analysis, this kind of analysis is going to look at a lot of charts and graphs in order to find the patterns of price movements, look at some of the trading signals that are out there, and even look at some of the other analytical charting tools to figure out the weakness or the strengths of a security.

There are a lot of ways that we are able to work with a technical analysis based on what our needs are at the time. It means this strategy works on currencies, fixed income, commodities, stocks, and futures, to name a few. For our needs, we are going to look mostly at how it works with stocks, but there are a lot of options out there that we can explore and find good opportunities for investing with this technical analysis.

This one is going to assume that the security is already priced right where it should be. With fundamental analysis, the investor believes that they can find a security that is discounted based on its perceived worth, lack of debts, equity, assets, and more. But technical analysis is going to assume that all of this is found in the price of your security already and that there is no such thing as an overpriced or discounted security at all.

There are going to be two main methods that are going to be used to analyze securities and make some good investment decisions, and these are the technical analysis and fundamental analysis. Fundamental analysis is going to involve us going through some of the financial statements of a company to help determine the fair value of the business.

To keep it simple, the technical analysis is going to spend a lot of time trying to look more at the sentiment of the market behind the trends in the price by looking for trends and patterns and seeing how that may affect what is going

on in the market. This is preferable to a lot of investors, especially with a day trader, rather than looking at some of the fundamental attributes that may be found with the security.

## How to Use a Technical Analysis

This is a strategy that is going to spend a good deal of time trying to forecast some of the price movements of pretty much any instrument that you would want to trade, as long as it is going to be, on the average, subject to the different forces of supply and demand. This means that you are able to work with a technical analysis of currency pairs, futures, bonds, and stocks.

In fact, there are some who view this kind of strategy as just a study of the supply and demand forces and that these are going to be shown as the price movements of the market on some of the graphs and charts that are used. You will find that this kind of analysis is going to most likely, apply to some of the price changes, but there are a few analysts of this nature who will track numbers in addition to the price, including the open interest figures and the trading volume.

Across the industry, there are going to be lots of signals and patterns that are developed by researchers in order to help us see the benefit of working with this kind of analysis and getting the best results I the process. These analysts have also come in and developed many systems of trading to help them forecast what is going to happen in the market and trade on those price movements.

Some indicators that we will want to use are more focused on figuring out the trend in the current market, including the resistance and the support areas, and then there are some that are more focused on determining the strength of a new trend and how likely it is that this trend is going to continue along the way. Some of the technical indicators and charting patterns that we are able to use will include momentum indicators, moving averages, channels, and trendlines.

Technical analysts have also developed a lot of trading systems in order to make it easier to forecast and then trade on a price movement.

To keep this simple, a technical analysis is going to look at the following indicators to help make things possible, including:

1. The support and resistance levels
2. Moving averages
3. Oscillators
4. Volume and momentum indicators
5. Chart patterns
6. Price trends

## The Limitations of a Technical Analysis

While there are a lot of different parts that come with technical analysis, there are also a few limitations that we are going to notice when it comes to working with technical analysis. The major hurdle that is going to come in is the legitimacy of the economic principle of the efficient market hypothesis. According to this, the market prices are going to reflect all of the past and current information already, so there is no way for us to take advantage of the patterns or the wrong prices in order to earn some more in profits.

Many fundamental analysts and economists are going to believe that inefficient markets will find that it is hard to believe that any actionable information is contained in the historical price and volume data, and furthermore, that history is not going to repeat them. Instead, they believe that prices are going to move more as something that is random.

Because of this, you are then going to see some of the other traders look at the price decrease and choose to sell their positions to avoid losing money. This is going to reinforce the trend as well.

Even with some of these shortcomings, there are a lot of benefits to working with the technical analysis. There are a lot of traders, especially those who are working with day trading, who will work with this method because it is going to provide them with the results they need. And knowing the movements of the charts will often be enough to help them to see success with this kind of trading since it is shorter in length. But doing a combination of the fundamental analysis and the technical analysis has served a lot of traders in the process as well, so it depends on your trading style and what seems to work the best for you.

CHAPTER 8:

# Understanding Futures

Futures are a derivative form of financial contracts that oblige the related parties to perform a transaction with an asset at a future price and date that has predetermined. In futures trading, the buyer required buying, or the seller needed to sell the underlying securities at the price that has set, no matter what is the current price in the market or what the expiry date. The underlying assets comprise of physical commodities and other instruments of financing. They are standardized as well for facilitating trading on a futures exchange. You can use futures for speculation of trade or hedging.

- Stock futures, for example, the S&P Index
- Commodity futures, for example, natural gas, crude oil, wheat, and corn
- U.S. Treasury futures related to bonds and various other products
- Precious metal futures for silver and gold
- Currency futures including pound and euro

## Pros of Futures Trading

- The investors can use up contracts of futures for speculating right on the direction in the set price of the underlying assets.
- Companies have the chance of hedging the raw material price or the products sold by them for protecting themselves from adverse movements of the cost.
- The contracts of futures need a deposit of only a portion of the amount of contract with the broker.

## Cons of Futures Trading

- Investors have the risk of losing more than the starting margin amount as futures use up leverage.
- Investing in contracts of futures might lead a company that

hedged to miss the favorable movements of the price.

- The related margins might act as a double-edged sword. The gains will amplify, and so will be the losses.

Instead, the broker will need an initial amount of margin, which includes a part of the total cost of the contract. The amount that will be held by a broker can differ relying on the contract size, the terms and conditions of the broker, and the investor's creditworthiness.

## Speculation of Futures

The speculators will also be able to take a sell speculative or short position if they think that the price of the underlying security will be falling. If the asset price declines, the trader will be taking an offset place for closing the futures contract. Once again, the difference will get settled at the expiry date of the futures contract. An investor can make a profit when the price of the underlying asset is below the cost of the contract and will incur a loss of the present rate is more than the price of the contract.

It is essential to note that margin trading will permit a more significant position than the actual amount held by the account of the brokerage. As the final result, investing on margin can improve the percentage of profits but can also maximize the losses. For example, when a trader has a brokerage account balance of $5,000, and he is in a trade for a position of $50,000 in crude oil. If the oil price moves in the opposite direction of the trade, the trader will incur a loss that can even exceed the $5,000 margin amount of the account. In such a case, the broker will be making a margin call for additional funds that need to deposit for covering the losses of the market.

## Futures Hedging

Futures can use up for hedging the movement of the price of the underlying security. The primary goal here is to prevent losses from the inherent nature of unfavorable changes in price rather than speculating. Most of the companies that opt for hedges are producing or using the underlying security. For instance, a farmer of corn can start using futures to lock in a particular selling price for their crop. By doing this, he can potentially cut down the risk and also guarantee that he can receive a fixed amount of pay. If by chance, the corn price falls, the company will be gaining on the hedges for offsetting the losses from selling the crop in the market. With such a form of loss and

gain offsetting one another, hedging can effectively lock in a high price in the market.

## Futures Regulation

The markets of futures regulate by the CFTC or Commodity Futures Trading Commission. CFTC is a form of a federal agency that was set up by Congress in the year 1974 to ensure integrity in the market price of futures. It also included the prevention of abusive practices related to trading, regulation of the brokerage firms that are related to futures trading, and prevention of fraud.

### Example of Futures Trading

Suppose a trader is willing to speculate on the crude oil price by entering a position in the contract of futures in May. He enters the position with the expectation that the crude oil price will go up by the end of the year. The crude oil futures of December traded at $50, and the trader fixes in the contract at that price. As crude oil is traded in the increment of 1,000 barrels, the trader is now holding a position that is worth $50,000 in crude oil ($50 x 1,000 = $50,000). But, the trader is only required to pay out a part of the total amount upfront, the initial amount margin that is needed to deposit with the related broker.

In the period between May to December, the crude oil price will fluctuate exactly as the futures contract price. In case the price of crude oil turns out to be too volatile, the broker might ask out for extra funds that need to deposit into the account of margin. In December, the expiry date of the futures contract is approaching, which is the third Friday of that month. The overall price of crude oil rose to $65. Now, the trader sells out the original futures c0ntracts for exiting his position. The total difference will be cash-settled. They will earn a total of $15,000, excluding the commissions and fees of the broker ($65 - $50 =$15, $15 x 1,000 = $15,000).

But, if the price of crude oil came down to $40 in place of rising up to $65, the trader will be losing $10,000 ($50 - $40 =$10, $10 x 1,000 = $10,000).

Futures are an excellent form of investment when appropriately used. It would help if you determined the market conditions accurately for gaining profits.

**CHAPTER 9:**

# Fundamental Analysis and Technical Analysis

If you want to succeed as a trader, analyst, or investor, then you have to learn and understand fundamental analysis. It constitutes one of the most crucial aspects of any investment or trading strategy. Many would claim that a trader is not really accomplished if they do not perform fundamental analysis.

Fundamental analysis can be defined as the examination, investigation, and research into the underlying factors that closely affect the financial health, success, and wellbeing of companies, industries, and the general economy.

It can also be defined as a technique used by traders and investors to make a determination regarding the value of a stock or any other financial instrument by examining the factors that directly and indirectly affect a company's or industry's current and future business, financial, economic prospects.

At its most generic form, fundamental analysis endeavors to predict and learn the intrinsic value of securities such as stocks. An in-depth examination and analysis of certain financial, economic, quantitative, and qualitative factors will help in providing the solution.

Fundamental analysis is mostly performed on a company so a trader can determine whether or not to deal in its stocks. However, it can also be performed on the general economy and on particular industries such as the motor industry, energy sector, and so on.

Basics of fundamental analysis

The main purpose of fundamental analysis is to receive a forecast and thereby profit from future price movements. There are certain questions that fundamental analysis seeks to answer. For instance, an analyst or swing trader may wish to know answers to the following questions;

- Is the firm's revenue growing?
- Is it profitable in both the short and long terms?

- Can if afford to settle its liabilities?
- Can it outsmart its competitors?
- Is the company's outlook genuine or fraudulent?

These are just a few examples of the numerous questions that fundamental analysis seeks to answer. Sometimes traders also want answers to questions not mentioned above. In short, therefore, the purpose is to obtain and profit from expected price movements in the short-to-near-term future.

Most of the fundamental analysis is conducted at the company level because traders and investors are mostly interested in information that will enable them to make a decision at the markets.

They want information that will guide them in selecting the most suitable stocks to trade at the markets. As such, traders and investors searching for stocks to trade will resort to examining the competition, a company's business concept, its management, and financial data.

For a proper forecast regarding future stock prices, a trader is required to take into consideration a company's analysis, industry analysis, and even the overall economic outlook. This way, a trader will be able to determine the latest stock price as well as predicted future stock price. When the outcome of fundamental analysis is not equal to the current market price, then it means that the stock is overpriced or perhaps even undervalued.

## Steps to Fundamental Evaluation

There is basically no clear-cut pathway or method of conducting fundamental analysis. However, we can break down the entire process so that you know exactly where to begin. The most preferred approach is the top-down approach. We begin by examining the general economy followed by industry group before finally ending with the company in question. In some instances, though, the bottom-up approach is also used.

Companies are often compared with others. For instance, we may want to compare energy companies Exxon Mobil and British Petroleum. However, we cannot compare companies in different industries. For instance, we cannot compare a financial company like City Group with a technology firm like Google.

## Determine the Stock or Security

You need first to have a stock or security in mind. There are many factors that determine the stocks to trade. For instance, you may want to target blue-chip companies noted for exemplary stock market performance, profitability, and stability. You also want to focus on companies that constitute one of the major indices such as the Dow Jones Industrial Average or S&P 500. The stocks should have large trading volumes for purposes of liquidity.

## Economic Forecast

The overall performance of the economy basically affects all companies. Therefore, when the economy fares well, then it follows that most companies will succeed. This is because the economy is like a tide, while the various companies are vessels directed by the tide.

There is a general correlation between the performance of companies and their stocks and the performance of the general economy. The economy can also be narrowed to focus on specific sectors. For instance, we have the energy sector, transport sector, manufacturing, hospitality, and so on. Narrowing down to specific sectors is crucial for proper analysis.

There are certain factors that we need to consider when looking at the general economy. We have the market size, growth rate, and so on. Basically, when stocks move in the markets, they tend to move as a group. This is because when a sector does well, then most companies in that sector will also excel.

## Company Analysis

One of the most crucial steps in fundamental analysis is company analysis. At this stage, you will come up with a compiled shortlist of companies. Different companies have varying capabilities and resources. The aim in our case is to find companies that can develop and keep a competitive advantage over its competitors and others in the same market. Some of the factors that are looked into at this stage include sound financial records, a solid management team, and a credible business plan.

When it comes to companies, the best approach is to check out a company’s qualitative aspects followed by quantitative before checking out its financial outlook. We shall begin with the qualitative aspect of the company analysis. One of the most crucial is the company’s business model.

## Business Model

One of the most crucial questions that analysts and all others ask about a company is exactly what it does. This is a simple yet fundamental question. A company's business model is simply what the company does to make money. The best way to learn about a company's business model is to visit its website and learn more about what it does. You can also check out its 10-K filings to find out more.

You need to make sure that you thoroughly understand the business model of each and every company that you invest in. Most companies have very simple business models. Take McDonald's for instance.

They sell hamburgers and fries. At other times it is not easy to understand what a company does. For instance, the world's best-known investor, Warren Buffet, does not invest in tech companies because he simply doesn't understand what they do.

## Stock Analysis

Stock analysis can be defined as the process used by traders and investors to acquire in-depth information about a stock or company. The analysis is done by evaluating and studying current and past data about the stock or even company. This way, traders and investors are able to gain a significant edge in the market as they will be in a position to make well-informed decisions.

## Technical Analysis versus Fundamental Analysis

When analyzing a stock, analysts usually perform both fundamental and technical analysis. Fundamental analysis relies mostly on different sources of data such as economic reports, financial records, market share, and company assets. For publicly listed companies, the data is usually sourced from financial statements such as cash flow statements, income statements, footnotes, and balance sheets.

Such information is readily available to the public via 10-K and 10-Q reports. You can access the reports via the EDGAR database system that is managed by the SEC or Securities and Exchange Commission. Data can also be sourced from companies' earnings reports which are often released quarterly.

## Intrigues of Fundamental Analysis

Some of the parameters that analysts look at within a company's financial

statement include a measure of solvency, profitability, liquidity, growth trajectory, efficiency, and leverage. Analysts also use rations to work out the financial health of companies. Examples of such ratios include quick ratio and current ratio. These rations are useful in determining a company's ability to repay short-term liabilities based on their current assets.

To find the current ratio, you will divide the current assets with the current liabilities. These figures can easily be accessed from the company's balance sheet. While there is no ratio that is considered ideal, anything below 1 is considered a poor financial situation that is incapable of meeting all short-term debts.

The balance sheet also provides analysts with additional information such as current debt amounts owed by the company. In such a situation, the analysis will focus on the debt ratio. This is computed by working out all the liabilities and dividing by the total assets. When the ratio is computed, a ratio greater than 1 point to a company with a lot more debt compared to its assets. This means that should interest rates rise, then the firm may default on its debts.

This will give a trader or investor a feel of the company's performance and will determine whether the firm is stable, receding, or growing.

It is also common for an analyst to compare a company's financial statement with those of other companies in the same sector. This is done in order to compare profitability and other parameters.

Of great importance is the operating profit. It is a measure of the revenue that a company is left with after other expenses have been cleared. Basically, a firm with operating margins of 0.27 is viewed favorably when compared with one whose margin is 0.027, for instance. This can be translated to mean that the firm whose operating margin is 0.27 spends 73 cents per dollar earned to foot its operating costs.

## Financial Statements

Fundamental analysis at the company level would be incomplete with analyzing the company's financial performance. There is often more than one financial document available. In fact, most companies produce or generate numerous financial statements that it becomes difficult to understand them all. Most often, they present investors with a huge challenge. However, with a little bit of information and exposure, you can understand these financial

documents. This is advisable

## Technical Analysis

The fact is that fundamental analysis is such a broad subject that what it entails sometimes differs depending on scope and strategy. It involves a lot of things such as regulatory filings, financial statements, valuation techniques, and so on.

**CHAPTER 10:**

# Techniques and Tactics

The thing to keep in mind is that the best strategy of a day trader is to find something that works and repeat it over and over again.

Once you have decided on that one strategy that works for you, placing and entry, setting a stop loss, and making a profit, then get on the simulator and practice! That's the way you will work out issues with your strategy. You can go over it as much as you want until you see a continuous profit.

The goal is to be able to control your risk. You want to be able to manage your trade risk and your daily risk.

- The amount you are willing to risk on each trade is referred to as your trade risk. That should ideally be equal to one percent or less of your capital on each trade. You can do that by selecting an entry point and then set yourself a stop loss. The stop loss will get you out of the trade if the odds go too much against you. You should also learn how to calculate the position size for futures, stocks, and forex because knowing your position size will also help to keep your risk low.
- The amount that you lose in a day is your daily loss. It is smart to set a daily loss limit each day to avoid huge losses to yourself. If you have set your trade loss at one percent, you may want to set your daily risk at three percent. In that instance, you would need to lose three or more trades with zero winners to lose three percent. And if you have practiced using your software and practiced using your strategy, that shouldn't happen often. You want to keep your daily losses small so that on winning days, they are easily recouped.

Trading only two or three hours per day is very common for day traders. However, some make a trade for the whole session from nine-thirty am until four pm, usually for the US stock market. All-day traders are consistent in the hours they trade. They trade at the same hours each day, whether they are

trading for three hours or the whole session. Here are some of the hours you will want to focus on yourself:

- If you are going to be trading stocks, the best time of day for trading is the first hour and second hour right after the open, and the last hour of the day before the close. So, between 9:30 am, and 11:30 am EST is the first two-hour period you want to find good trades. The biggest price moves and biggest profits are to be at this time of day. Between 3:00 pm and 4:00 pm EST is a good hour of the day also. There are pretty big moves then also, however, if you are going to only trade for two hours in a day, then trade in the morning. That's when the market is the most volatile.
- If you will be trading futures, the opening time is the better time to trade. That would be between 8:30 am, and 11:00 am EST. Active futures see activity around the clock, so the best trading times are a little earlier then with stocks. Futures markets officially close at different times, and the last hour of a contract can also offer sizable moves for you to get in on.
- If you decide to trade the forex market, they trade twenty-four hours a day during the week. The EURUSD is the favorite of the day traders. It is the most volatile between 0600 and 1700 GMT. These are the hours when the day traders should trade this market. The biggest price moves are between 1200 and 1500 GMT. This is when both the US and London markets are open, trading the euro and US dollar.

We mentioned before that day, traders find a strategy and then repeat it over and over again. That is what we will talk about now in more detail. These are the basic day trading strategies that are used. There are many others, but these are the most common.

**Scalping:** Probably, the most common of the strategies is scalping. It is a primary get in there and gets out of there type of mind frame toward trading. Day traders will get in on a good trade and then sell as soon as it starts to show profitability. It's relatively safe, and that's why a lot of people like it. You don't watch it and then hope it stays strong.

**Daily Pivots:** A day trader using this strategy would look to buy their trade at

its lowest price during the day and then try to sell it at its highest price of the day. These times are also referred to as low of the day (LOD) and high of the day (HOD).

**Fading:** This is known as a risky strategy. Day traders will short stocks once they start to gain rapidly. The theory being that the stocks are over purchased, and the traders who purchased early will be looking to sell because the stock is gaining and they are making money. The other traders may be scalping. This strategy of fading can be profitable when used correctly, but keep in mind that the risk is higher.

**Momentum:** If you are a person who would be interested in riding trends, then this type of trading may be a perfect strategy for you. The day traders who enjoy this method watch the current news and are watching for the trends being supported by the highest volumes of trades. Then they jump on the wagon and ride the waves until they see signs of it turning around. Then, of course, they are watching the news releases, and they just start all over again.

**Stop Losses:** The use of stop losses is crucial in day trading. The market is so prone to sharp price movements, and you could potentially see substantial losses in a short amount of time if you aren't careful. There are two types of stop losses which we covered earlier: the physical stop-loss order and the mental stop loss. During your whole day trading career, it is essential for you to keep these stop losses in the front of your mind.

These strategies that I have given you are not miracle strategies. Just because you master one, it won't make you rich. The main secret lies in consistency. Always be looking at your strategies and evaluating them. Tweak them to work for you by adding other parts of other plans to them. Use them to find your comfort zone. Find what works for you. It has taken many of the most elite day traders' years to hone and perfect their unique strategies.

If you are to be a successful day trader, you must have patience. You may wait minutes to days for a profitable trade to come along. You must be able to make smart decisions. Knowing when to get in and out of a trade is vital. There could be a profitable situation staring you in the face, and you have maybe minutes to react. And of course, you must be able to maintain balance. How you respond to winning and losing is so important. One day, you can be on cloud nine because the day went perfectly. The next day you could be

down in the dumps and depressed because you may have taken a nasty loss. You must maintain balance there for your emotional wellbeing.

**CHAPTER 11:**

# Stock Market

The stock market has a long history, dating back hundreds of years. The first company to ever go “public” and issue paper shares of stock to investors was the Dutch East India Company in Europe in 1602. This company also was the first to issue dividends, with yields that went as high as 62% annually.

Traders received paper notes when they purchased stock, which they bought and sold with other traders throughout Europe. Soon the London Stock Exchange was born in England, and then the New York Stock Exchange (NYSE) in the United States (both of which are still operating today). Like the NYSE, exchanges provided a centralized location for companies to go “public,” as well as for traders to buy and sell shares of these companies' stocks. Considering many citizens lived miles away from these stock exchanges, and the automobile wasn’t invented yet, “bucket shops” started propping up throughout the United States.

You could compare a bucket shop to Vegas sports betting, as the shops would allow traders to place wagers on the direction of stocks, without actually owning any shares. These bucket shops were entirely speculative and risky, in that traders could get up to $100 worth of stock buying power with a deposit of just $1. This ultimately meant traders could lose a lot of money “betting” on stocks. Soon bucket shops were made illegal, as they were thought to be the cause of two market crashes in the early 1900s.

But even in the era of bucket shops, exchanges have always acted as the centralized hub for stocks, and stock records, to be kept. As such, these exchanges needed to maintain a permanent record of the price of public companies. Instead of computers, stock prices were listed on “ticker tape” at these early exchanges, mostly stock symbols and prices being communicated via telephone lines, and printed out on long strips of paper via a typewriter. You may hear traders say phrases like “read the tape,” which is a reference to the ticker tapes used many years ago.

By the mid-1960s, ticker tapes were replaced with electronic “ticker boards.”

These were long electronic displays where ticker symbols and prices scrolled across a screen. These “ticker boards” were soon shown at the bottom of television screens on news channels. Traders would have to sit in front of their TV and wait for their stock symbol to scroll across the bottom to know the real-time price.

Up until the 1990s, most people could only trade stocks via “stockbrokers.” Traders had to call their “broker,” who would then buy or sell stocks for them. Most of these brokers worked on a fixed commission, meaning they charged a fee to traders to use their services. It was costly to trade stocks back then, with commissions being as high as $100+ for just one order.

With the internet boom of the '90s, online retail brokers started emerging who offered commission fees around $20 per trade. With the huge savings offered to consumers, many jumped in, even those who may not have qualified before due to small account sizes.

As the years have gone by, brokers have slowly been in a race to the bottom in regards to commissions, lowering their fees to $10, then $5, then $2.50, and now almost all have switched to commission-free trading. The beauty of capitalism allowed for increased competition and made the market a much less expensive place for us as stock traders. Many brokers also now offer no account minimums, meaning someone with as little as $100 can open an account and trade stock, all with no fees.

This all equates to our current era being an excellent time to be a trader and invest in the stock market. This is because no matter your job or net worth, you can grow your wealth in the markets and not be burdened with the large fees which accompanied stocks in the past.

## What’s a Stock?

At its most basic, one share of stock represents a partial claim to a given company’s earnings and assets. The more shares of a company’s stock available, the less each share is worth. The more shares of a company you own; the more control you have over the company. Stock can be referred to as equity or shares as well. Those who own stock in a company are referred to like that company’s shareholders which means they each get a share of profits, known as dividends, at predetermined periods throughout the year and also, in some cases, voting rights based on the number of shares in a

company that they hold. While originally, each stock that you owned came with a physical piece of paper indicating what you owned as well as how much, these days all of this information is stored electronically by the brokerage that you will ultimately choose to handle your transactions directly. While holding a physical copy of your shares is nice, it would also require you to take those documents to the brokerage you were using every time you wanted to trade. This process is referred to as the in-street name method of holding shares. While owning shares of a company does entitle you to a piece of their profits, it does not mean that you can have an active say in how the business is run, even if you own voting shares. At most, you will be able to vote for the board of director members at an annual shareholders' meeting. During this meeting, you will be able to cast your vote, and it will be weighted based on the number of shares of the company's stock that you hold. This process aims to provide shareholders a way of indicating their pleasure or displeasure with the overall way the company is being run. Unless you own a significant portion of the total number of shares of a company, you really won't have much say in what they do.

## Types of Stocks

There are ordinary shares, which are the most widespread, and we have spoken so far preference shares and savings shares. The preference shares give the right to a preference in the distribution of profits or the repayment of capital. Savings shares do not have the right to vote but have patrimonial privileges established by the company's deed of incorporation. If you have bought an action, you also have the right to receive an annual dividend—that is, the company profit divided among all the participants in the so-called "risk capital." High dividends are very attractive to investors, but it is not guaranteed that they are distributed every year or even that they are constant for budgetary reasons or for company policies that do not provide for profit distribution to favor the company's capitalization. According to some variables, the market value of a share is that which results from the official price lists, if listed, and may be different from the nominal value and the asset value (net equity divided by the number of shares). A solid company with good growth prospects will be associated with high potential and, therefore, a high value of the shares issued; on the other hand, a company with financial problems and with prospects of de-growth will be associated with a low value of its shares. Even the performance of the economy, politics, and speculation

can influence an action's market value.

## Stocks as Investment

In general, it is possible to invest in the stock market with the direct purchase of listed shares or with the purchase of derivatives. In general, for those who have the problem of how to start investing in the stock exchange, the recommended choice is that of derivatives, in particular, binary options. For those who want to buy the securities directly, the process is slightly more complex—you have to open an account for the custody of shares, and on this deposit, you, unfortunately, pay a salty stamp. Another way to invest in the stock exchange is made up of mutual funds. Investments of this type do work through the purchase of a share of the fund. The managers then use the money obtained through the sale of shares to invest in the stock exchanges. This is an indirect investment that delegates all responsibilities to fund managers. In some cases, good profits can be made, but it has often happened that investment funds, especially if managed by Italian companies, have led to very strong losses. Moreover, the tax treatment of this type of investment is strongly penalizing.

### Mindset and the right approach

The right investment attitude, essentially, is a blend of six key characteristics. Over time, it is the right contributing approach that will have the impact between an acceptable auditor and a dependably productive financial expert.

### Mental balance is the key

What do we fathom by mental prudence? It is the ability to think indisputably despite when markets are unusual, and the financial expert is under tremendous weight. Usually, this is when the most financial expert will as a rule sway and accept veritable contributing failures. Believe it or not, mental aptitude is about the calm that you can keep up despite when the market appears to go against you. There are two extreme perspectives on mental balance. Stock exchanges are driven by fear and insatiability. Financial experts will find ordinarily when all is said in done, get energetic at the most elevated purpose of the market, and terrible at the base of the market. Smart contributing is connected to doing the cautious reverse.

### Not just peace of mind; you also require balance

How is balance unique in connection to peace of mind? What makes a

difference is extremely unnoticeable, however, notwithstanding all that it exists.

**Do whatever it takes not to seek after returns, seek after the right framework**

If you are more focused on the results rather than the technique, if you are more worried over the closures than about the strategies, by then, you have an attitude problem to contributing. Remember, contributing is substantially more of getting the framework right. How you recognize stocks, how you screen stocks, what are the non-cash related parameters you consider, how might you impact on the channel and the boundaries of security, how might you incorporate a motivation by aligning your passage and leave levels; all these are a bit of your methodology or system. Your consideration should be on fulfilling this methodology, and the results will thusly come after.

**The act generally determined and be a self-motivated student**

The stock exchange is a remarkable teacher yet to take in the fundamental activities from the market. You should be an excited observer and a self-motivated student. The best way to deal with gain from the market is to listen energetically to what the market is trying to tell you. Endeavor to record the learnings from the market consistently and it can transform into your Bible for exchanging.

**An ounce of movement justifies a pound of orchestrating**

You can make the best of plans within the planning stage before trading. There are a couple of things about the stock exchanges that you can adjust just once you start exchanging with real money.

**CHAPTER 12:**

# Cryptocurrencies

To be able to get a better understanding of what cryptocurrency is, it is important to not only define it but also go beyond the definition to cover its technical and financial aspects.

### Definition of Cryptocurrency

We do not have a universal definition of cryptocurrency. However, for purposes of our discussion, we can define cryptocurrency as:

Cryptocurrency is a virtual decentralized digital currency created and managed through advanced algorithmic encryption techniques known as cryptography.

## Features of Cryptocurrency

Cryptocurrency has many features. However, we can classify these features into three main categories: technical features, financial features, and transactional features.

### Technical features

- **Virtual –** This currency has no physical existence. It is generated by using electronic codes
- **Algorithmic –** Codes generated are algorithmic by nature
- **Cryptic –** The codes are encrypted as a guarantee of security. They also regulate the creation of new coins and verification of existing coins.
- **Database-driven –** Code records are stored in database ledger known as the blockchain.
- **Decentralized –** Most fiat currencies are created, supplied, and controlled by governments' central banks. On the contrary, cryptocurrencies creation and transactions are algorithmically self-controlled by open-source software. They rely on peer-to-peer networks for their circulation. Thus, no single entity can control its creation and circulation.

- **Digital –** Traditional fiat currency is defined by a physical object such as gold, silver, etc. They are also stored in vaults. Digital currencies are not defined by any physical object, but codes. They are kept in digital wallets which act as their store. They are transacted by transmitting them from the sender's digital wallet to the recipient's digital wallet.
- **Adaptive scaling –** While traditional fiat currencies are controlled through monetary authorities' interventions, cryptocurrencies can scale up or down dynamically (automatically) to control their supply in the market.
- **Mining –** While traditional coins are produced through a process of minting, crypto coins are produced through a process of mining.
- **Open source –** The software used to create mine cryptocurrency has codes that can be readable by any software developer. Thus, developers can create their APIs without the need to consult or seek permission from anyone.
- **Proof-of-Work –** Most cryptocurrencies (Bitcoin included) rely on the proof-of-work system. In this system, a hard-to-compute but easy-to-verify puzzle is used as a way of earning the fundamental value of the coin. Thus, a token (coin) is created once a puzzle forming it is cracked (solved). Some other cryptocurrencies use Proof-of-Stake or Proof-of-State either as a substitute or in addition to proof-of-work.

**Financial features**

- **No physical jurisdiction** – The currency is not limited to a given territory. It is global and universal.
- **No legal jurisdiction –** Because it has no physical jurisdiction, it is not subject to laws of any country.
- **Electronically transacted –** The currency is transacted in electronic form.
- **A measure of value –** The currency is used to measure value based on ‘proof of work' (PoW), and other measures.
- **Exchange of value –** The currency can be used as a reward for the exchange of goods and services.
- **Speculative –** The currency is market-driven and, as such, is

subject to the forces of demand and supply.

- **Controlled supply –** Most cryptocurrencies have an upper limit of supply tokens. For example, Bitcoin has a maximum of 21 million tokens that are expected to be completely mined by 2140. This supply is controlled by a schedule written in the code. This shows transparency in terms of the money supply so that anyone can know the number of tokens in circulation and roughly compute the number of tokens available by a given future date. This is unlike fiat currency, whose volume in circulation is mostly kept secret by governments around the world.
- **No debt –** Cryptocurrencies are currency commodities just as gold. They stand for themselves. Unlike fiat currency, they do not represent debts (through the system of IOU).
- **Value –** For a currency to have worth, it must represent some value. Before the advent of fiat currency, traditional currencies used to represent actual gold. Gold is scarce and hard to mine and refine. Therefore, the work undertaken in this process of mining and refining contributed to its fundamental value. Furthermore, its scarcity granted it the market value (the forces of supply and demand). Mining crypto coins, especially Bitcoins, requires a lot of work and increasingly complex and sophisticated circuitry. This makes Bitcoins scarce.

**Transactional features**

- **Secure –** While public keys are transmitted with the coin transaction, only the owner of a cryptocurrency has the private key. Thus, this is the only one who can send cryptocurrency. This sophisticated cryptography is made harder to break by the sheer magnitude of the big numbers that represent it.
- **Pseudonymous –** Cryptocurrencies use pseudonyms such that neither transactions nor accounts are connected to the real-world identities. For example, Bitcoins are sent and received via randomly generated addresses. Each of these addresses is around 30 characters. Coin-holder identification is encrypted within this address. While you can use these randomly-generated addresses to follow up on transaction flow, you cannot connect to users'

real-world identity with those addresses. While the accounts are pseudonymous, they are not anonymous as they are publicly available. However, some cryptocurrencies like Monero have both pseudonymous and anonymous features.

- **Permission-less –** There is no permission-seeking arrangement when it comes to using cryptocurrency. Cryptocurrencies are generated by software that anyone can easily download for free and use. Once you have downloaded the software, you can easily send cryptocurrencies such as Bitcoins. There is no one to prevent you from doing so.
- **Irreversible –** After a transaction is confirmed, it can never be reversed.
- **Quickly available around the globe –** Cryptocurrency transactions happen almost instantaneously. Within a few minutes, networks around the globe confirm them. Distance does not matter.

## How Do Cryptocurrencies Work?

Cryptocurrencies work on the same concept as debit cards. The only difference is that bookkeeping is not done by banks but by the public. They have no centralized clearinghouse. Their bookkeeping is jointly carried out through blockchain — a publicly available and distributed ledger across networks.

Since every person has a copy of the ledger/register, transparency, and accountability help to build trust. By not being distributed, it avoids intermediaries who would be responsible for the storage of the register. With no intermediaries, no agency costs.

The following concepts make it easier to understand cryptocurrency:

- Mining
- Public Ledger
- Transactions

### Mining of Cryptocurrency

Mining is a special term that refers to the process of validating the algorithm of a given token. It is only when a given token is validated (verified and

confirmed as genuine) that it becomes a cryptocurrency and thus is entered into the public register (blockchain).

Those people who carry out this mining are the ones referred to as miners. Miners' role is to secure the network by receiving and validating new issues of coins and entering them into the public register. This verification process involves using software to solve cryptographic puzzles of a given set of transactions and adding them to the ledger once they are solved. Miners are rewarded in the form of coins for their mining effort.

For heavily mined cryptocurrency such as Bitcoin, miners require specialized and sophisticated hardware such as aspic chips to process billions of calculations per second to confirm one transaction. The more puzzles miners solve; the more cryptocurrencies they earn. This incentivizes them to continue mining, thus ensuring the safety of transactions over the network. This mining process gives fundamental value to the coins. This is what is referred to as proof-of-work.

**Blockchain Technology**

A blockchain is a public ledger of cryptocurrency transactions. When a peer-to-peer transaction is made, the transaction is transmitted to all network users with 'full-node' wallets. Miners then try to solve the transaction's cryptographic puzzle. The first miner to solve the puzzle is rewarded with a few newly mined coins. Every transaction belongs to a block with a cryptic link to another block. Therefore, when a transaction is solved, its cryptic link to the new block is unraveled, and the new block is added to the ledger. This cryptic link serves as a chain between the previous block to which the transaction belongs and the new block unveiled through the cryptic link. This is why it is called a blockchain. Nonetheless, before the ledger is updated, there has to be a consensus among miners as to its validity. This consensus is proof that the miner who was the first to solve the cryptic puzzle has done work (proof-of-work).

In a technical sense, cryptocurrencies are restricted entries in a database of which certain specific conditions must be met for there to be a change in these entries. Assuring that these conditions have been met is achieved through proof-of-work. Thus, a mathematical algorithm rather than people secures the entries, unlike in the traditional fiat currency system.

**Transactions**

A transaction is a transfer of funds between two digital wallets. This transaction is transmitted to a public ledger. Once transmitted, it is queued awaiting verification and confirmation by miners. The wallet originating a transaction encrypts it with a cryptographic signature (encrypted electronic signature) as a mathematical (algorithmic) proof that the transaction is originating from the owner of that particular wallet. Once miners verify and confirm the validity of the cryptographic signature, it is then that they enter it into the public register (ledger/blockchain).

The cryptographic signature has a public code, which matches up with the user's privately held password. Any user of a given cryptocurrency can choose to have access to the ledger by downloading it. This becomes a "full node" wallet. However, they can opt to keep their coins in a third-party wallet such as Coin base.

Whoever owns the private key (private password) to a given a wallet owns the amount of cryptocurrency denoted in the ledger (blockchain). The primary difference between banknotes and cryptocurrency is that instead of governments and banks issuing the currency and keeping ledgers, an algorithm does.

## How Do You Acquire a Cryptocurrency?

There are two ways to acquire cryptocurrencies:

- Purchase them
- Mine them (validate their algorithm)

### How cryptocurrency avoids double-spending

Double spending is a situation whereby a person uses the same currency unit to spend more than once. Digital products are much easier to duplicate than non-digital products. However, due to the cryptic and accounting nature of cryptocurrency, it is nearly impossible to carry out double trading. Cryptocurrency uses blockchain technology to avoid any likelihood of double-spending.

### Why do you need a cryptocurrency?

The following are the main reasons why people go for cryptocurrency:

- **Safe hedge –** What has propelled Bitcoin is its storage of value.

Bitcoin has become the virtual gold standard for virtual currency. This is because, like most cryptocurrencies, their volume is known in advance.

- **Speedy transaction –** Due to their digital nature, cryptocurrencies enable fast transaction processing.
- **Low-cost transaction –** Cryptocurrencies use the peer-to-peer transaction process. Thus, middle agents, such as banks and clearinghouses are eliminated.
- **Anonymity –** Cryptocurrencies allow the anonymous transaction process.

**CHAPTER 13:**

# Portfolio Rebalancing and Management

Most investors have their portfolios arranged by class in percentages. They may want to seek out a certain level of aggressive growth, a certain level of value investing, and they also might want to protect a certain amount of their capital. In other words, they use asset allocation to build a portfolio that helps the investor to meet his or her goals over the long term. Asset allocation refers to the way that you have distributed your investments, so for example, if we were talking about asset allocation over stocks and bonds, an investor might have 50% of their investments in stocks and 50% in bonds, while a more aggressive investor looking for more growth with higher risk tolerance might have 70% of their investments in stocks and 30% in bonds.

When you first build your investment plans, determining your asset allocation is going to be one of the first things that you do. Someone who needs to raise cash quickly is going to be devoting more of their investments to aggressive growth stocks. Someone who is looking to preserve their money is going to be putting more of it into bonds or money market funds. Everyone has different goals, and you will have to look at your own goals and then breakdown your investment allocations accordingly.

Once you have that setup, you are going to let your investments run for a year and be making your stock purchases at regular intervals in order to meet your goals. So if at the beginning of the year you've decided to invest 65% in stocks, 20% in corporate bonds and 15% in cash, at each point when you make investments you will divide them up this way.

Of course, some investments are going to over perform, and others are going to underperform, with time. So by the end of the year, your portfolio might not be structured in the way you set out to have it structured. You might find that instead, you end up with 70% in stocks, 25% in corporate bonds, and 5% in cash.

At the end of the year, it's time to look at your asset allocation and see if it's remained the same. You will also have to look at your own goals. At the end of the year, your goals might be different than they were at the beginning of

the year.

In any case, what you're going to have to do is rebalance your portfolio, either to stay consistent with your original goals or to change the portfolio so that it will help you to meet your new goals. If the percentages in each asset class have changed, and you want to stay consistent with your original goals, you may have to buy and sell assets in order to bring things back into alignment.

Using the prior example, we would have to sell off some stocks and corporate bonds in order to reduce their percentages in the overall portfolio. Then, you would reinvest the proceeds as appropriate to bring yourself back to 65-20-15.

## Diversification

The most important tactic that you can incorporate into your investing is diversification. The reason is pretty simple and straightforward. First of all, no matter how careful you are in your fundamental analysis, mistakes are going to be made. Also, companies are not always going to stay on the same track going forward. A company might be on solid footing now, but the management may make many mistakes in the coming years, or there could be changes in management or competitors can arise that outcompete the company that you thought was a great investment, causing it to falter.

We have no control over these things. Therefore, the best method that can be used to protect you is to avoid putting all of your investment money in a single company. In fact, you should avoid putting all of your investment money into a small number of companies. The more companies that you invest in the better off you are, at least in theory.

In practice, you should select a set of companies that you can comfortably manage. The specific number of companies is going to vary from person to person. The more companies that you pick, the more time you are going to have to devote to fundamental analysis and keeping track of stocks and company earnings reports going forward. So there are going to be limits which are different for each person and their living situation. Someone who is a fulltime investor may be able to keep track of a few dozen companies. But someone who has a "day job" and isn't available for more than a few hours a week as far as devoting time to their investments, is not going to be able to

keep track of more than a handful of companies.

Therefore, we can't say what the exact number of companies to invest in should be. That is going to depend on your situation, but we can say that one company is certainly a bad idea, and 3-4 companies are certainly not enough. Most financial advisors would agree that at a minimum, you should be investing in 7-10 companies. Many financial advisors believe that a good number to shoot for is 20 companies.

Diversification helps to protect you against these types of risk factors. At a minimum, invest in three different sectors or industries. Then invest in three different companies per sector.

## Dollar-Cost Averaging

The tactic that is used by long term investors is called dollar-cost averaging. The purpose of this method is to avoid getting in a situation where you are buying too much of your stocks when prices are high. As you know, stock prices are constantly fluctuating up and down, and the market itself has many highs and lows, including bull and bear markets that take pricing of individual securities along with it for the ride.

Now, over the long term the truth is no matter what you do, the odds are that in ten, twenty, or thirty years, prices are going to be much higher than they are today and so the individual fluctuations are not going to matter that much. But as an investor, you want to maximize your return on investment or ROI. In order for that to happen, so that you can grow your wealth to the maximum extent possible, you need to be buying at the best possible times, when you can get the best possible prices.

And that is none of us has a crystal ball despite the claims of some to the contrary. It's simply impossible to know at any given moment whether or not the price of a stock is the best price that is going to be available.

During a bear market, many people are interested in being able to buy stocks when they are "cheap" relative to what they are normally priced. This is a good goal to have, and during bear markets, one of the things that you might consider doing is accelerating your stock purchases.

Any time that you have extra money to invest, you can do this outside of your regular dollar-cost averaging investment plan. Remember that the rules should be followed but they are not something that has to be written in stone,

and adjustments can be made when they are warranted.

## Buy More during Downturns

Any time there is a stock downturn, whether it's an individual stock or the market as a whole, you should immediately buy more stock. This is one of the reasons that it's important to have cash on hand. Of course, you don't want to use up all of your cash on a single stock purchase. If it does keep dropping in price, you are going to want to be able to buy more stock at the lower prices. But whenever there is a downward trend in price, you want to put money into the markets so that you can buy the stock at a discount. Of course, we are talking about normal circumstances here. If there is bad news about a company coming out, such as the company is engaged in some kind of fraudulent activity that is probably not a good reason to be investing more in the company.

By mundane we mean one bad earnings report among an overall trend of increasing profits. Investors that unload all their Apple stock based on one quarterly report that misses "expectations" or even shows reduced profits are making a foolish play.

External causes can be economic or political in nature. These are news events and such that lead to overall market declines that turn out to be temporary. In fact, these are the reasons that you should use in order to buy more shares.

CHAPTER 14:

# Disciplined Approaches to Investing

When a trader gets into trading, they are very hopeful that everything will play out well and that in no time, they will start making a lot of profits.

To succeed in trading, it is essential that a trader know what trade is all about. This means that they should fully be aware of the strategies in trading, risks involved, and how to manage the risks, and also importantly, understand the psychology involved in the trade.

## Understand Your Motive

It is essential to understand what you are about to put yourself through. Understand why you want to venture into trading, is it because you want to make money or because others are doing it? Knowing your primary motive for joining trading will save you from losing money. Trading involves you invest your money into the investment. Therefore, before you invest your money, it's good to learn all that trading entails. Without understanding the market, you are likely to lose money in ways you would have avoided had you first taken some lessons. Trading sounds so easy to someone who has not gotten into it, but along the way, they find out that it was not as easy as it seemed. Therefore, for a beginner trader, it is essential that they fully understand the business before investing in large sums of money. It is vital that as a trader, you understand how to stick to your methods no matter how tempting it gets. Sticking to your strategy shows that you trust your understanding of the market and cannot easily quit.

## Never Stop Learning

For a trader, there's never enough knowledge of the market. The trading patterns keep changing; you need to keep learning why the changes are taking place. You also need to know what to do with the changes and what strategies will work. Learning the basics and understanding the trading market is essential, but a trader has to be more open to learning every time. For a successful trader long-term trader, they have to keep up with new technologies that may affect the market. This means keeping up with the world's happenings as that is what will affect the trade market.

## Realize Your Goal

Understand your trading goals, as this will help you push on when the market doesn't seem to be working out well for you. The primary purpose of trading is to get money, but you should have a reason for why you need the money. Having the exact reason in your mind why you need the money will keep you more motivated to be a better trader every day. A clear objective will make you want to keep going even when you feel like giving up.

## Identify Your Flaws as Well as Your Strengths

Immediately you start trading. It is essential that you identify your weaknesses. The earlier you learn about your shortcomings, the quicker you get to work on it before you are exposed to losing money. You will get to know if the weaknesses are something you could work on by yourself, or you will need help from other experienced traders. It is good, however, to try working by yourself first since then, that means that you get to learn your weaknesses further. When this doesn't work out, then it is good to seek help from other traders. Identifying your strength is essential as it will help you stop wasting time when you can follow your strengths to achieve an intended trade goal. This will also help you schedule your time well so that you are able to balance your weaknesses and strengths. Every trader is different; what one trader finds to be their weakness could be another trader's strength and vice versa. The trick is to identify what will do for you as a trader. The trader, therefore, has to find out where they are going wrong and amend or replace the mistakes for better trading experiences.

## Allow Yourself Time

Traders get into the market with so many expectations about the market. They imagine that they will enter the market, put some money and the next minute they are swimming in millions of moneys. Trading is profitable when done right, but it also needs time before you finally enjoy your benefits. Allow yourself time to adapt to the market, to know how trading actually works, and even understand the many risks you are likely to incur. Allowing yourself time to just adjust to the market without so much greed for the money will make you a very great trader who will succeed in the long run. It is better to make small profits for a long time than to make huge profits for a short while. Not being ready is essential for a trader; it will give him the patience to wait and work towards being great traders rather than just

focusing on being short term traders. It will also make the trader love their trading experiences because they are not rushing themselves or putting too much unnecessary pressure on themselves.

## Have a Network of Fellow Traders

Like all other businesses, traders are supposed to create friendships among themselves. These fellow traders will not only inspire a trader, but they will offer help to the trader when the trader needs it. It is good to have friends doing the same thing as you are as you get to hear their experiences, and you can compare them with your own experiences. Having friends who been in trading longer than you have will give awareness of what awaits you in the long run. You can get some things to copy from a friend who has been doing this ahead of you. Having friends who are in the same industry will also give you a friend counselor or mentor who will help you in making various trade decisions. You can make this advisor your mentor whom you will consult from time to time. A mentor will help you avoid making bad trading decisions that could cost you a lot of money and also help you identify how to work out your weaknesses. A network is generally crucial because even other than having people who will offer you help; you also have people who can give you future connections in the market.

## Love the Trading Market

To love the trading experience means that you enjoy the process more than your love for the money that comes along. By doing this, it means that even when you don’t get so much money from the process, you will push on with the trade because you love the thrill of trading. The benefits are vital without them; there would be no reason to do trading. However, the benefits will not be very rewarding for someone who does not enjoy the process of getting them. This is even more so because you may lose all the money you had invested in trading, but if you love the process, you will know how to pick yourself back up. The rewards are not very fulfilling for a trader if the trader does not enjoy his journey and keeps waking up to make the trade just for the money. Enjoying the process gives you reasons to take more risks that will yield you more profits. But when you do not enjoy the process, you only play safely to maintain the same earnings as you make every day. If you are able to maintain a standard point, you do not really care for anything else. Loving the process means that you get to explore more to understand the market and

also to find ways that will make you enjoy your work more. When you love trading, you are not like to be as exhausted when working as people who do not enjoy it. When you enjoy the trading process, you are likely to adjust to the market quickly and even succeed more than traders who have been doing it for long.

## Stick to What You Know

The trading market is diverse; stick to what you are comfortable in rather than wasting your time going for different strategies. It is good to be open to new methods, but if the ways just spend your time or slow your progress, it is good to stick with what you know. Take time to modify what you have because that may be more beneficial for you as a trader. The art of mastering the industry involves that you deal with the little you know and work on it until perfection. When you have perfected one area, you can then pick another area and work on it. In short, it is good to subdivide your trading schedules and work on them individually than picking a big task that will not yield you much result.

## Keep Practicing

It is good for a trader to first try by practicing to ensure that they are more comfortable in the market before investing their money. Practicing before you finally get to put your money will give you security because you already know what you are about to face. You may achieve this by using a trading simulator, which will help you get a feel of the real work awaiting you. When you finally are convinced that you are up to the task, then you can venture into trading. Then when you eventually become a trader, it is good to keep putting into practice all the different methods you learn along the way. Every opportunity as a trader should be used to perfect on your skills, and the way to perfecting is by ensuring that you are not lazy but keep learning.

## Don’t Be Too Excited

Excitement is good, but in trading, it will cost you a lot. You may be too excited and end up making rushed decisions that will make you losses. Sometimes the market works too much in your favor that you begin to think you are perfect. You may keep getting it right, but you still need to be careful because getting too excited may make you make a small mistake that will bring you down. Your strategy may be working, but that does not make you

an overnight prophet that you now think your predictions are always right. You will still need to keep observing the market; you will still need to keep trying different strategies because there is no guarantee that you will keep winning. Losing several times, on the other hand, does not make you a definite failure. You don’t have to keep taking bigger risks to ensure that you recover your money. Take your time and strategize your moves and see where you are going wrong instead of crucifying yourself. Do not be too hard on yourself simply because a few times the plan didn’t work out for you. But also, do not let the excitement make you too overconfident as overconfident is most likely to bring you down. When you can seem to strike a balance, it is good to take a break from trading and relax. Continuing like this will be more harmful to you than if you had relaxed.

CHAPTER 15:

# Building Up Your Watch List

As an active day trader, you must create a trading watch list. Basically, this is a list where you record the daily share prices of a group of stocks over time. It acts like a menu for the trading day. Based on the fundamental and technical new catalyst, a trading watch list should have active stocks that are ready to trade. It can either be done on the notepad, a spreadsheet, or even on paper. There are many software programs and other utilities that help in generating a watch list. It can also be provided by some brokerage houses where you pay a minimal charge, or for free.

A trader can have more than one watch list, but there are two specific watch lists that every active trader should never mess; a general watch list and a dynamic watch list. The general one may be composed of hundreds of stocks that are familiar to the trader. Every trader should also narrow down from the general watch list and come up with an active stock watch list every trading day before the market opening. This watch list should have stocks that the trader has been watching for days or weeks, that may be about to set up for a technical movement.

## Stocks in Play

When a stock is widely believed to be a takeover target, it is said to be in play. Day traders widely trade stocks in play because their volatility produces reasonable risks and trading opportunities. When company stocks have less volatility, they move slowly, and they only have a reasonable price change only when the company shows good or bad trading outcomes. This may occur only a few times in a year. Such companies are ideal for investors looking for returns in the long-term. Long term investors buy shares in these companies, which have good prospects, with shares moving slowly in the right direction, and it matters less to them if the share price doesn’t move much intraday. But day traders buy and sell stocks during stock market opening hours and exit the trade before the day ends. Sometimes they even trade for a few minutes or an hour and exit the market. They, therefore, require more action than investors. They need stocks that move and produce

price swings so that their trade becomes worthwhile. Such fluctuations in prices leave enough room for them to realize profits, after paying the association fees charged by stockbrokers for buying and selling shares.

Stocks in play also have a large volume. Day traders are after quick entries and exits, and they want liquid stocks. That means they can buy and sell shares in the stock on demand. The broker is unable to negotiate the deal that the trader wants to buy or sell at. For day traders, this is a problem because it means the difference between a profitable trade and a non-profitable one. Day traders are guided by trade volumes of shares that are traded each day to arrive at what they consider good liquidity for them. For most traders, one hundred thousand shares traded per day would be their minimum, while some other traders may require a million shares.

Stocks in play will change in one day. An ordinary stock will be put in play by the company news which is typically released early in the morning, and it will vary depending on the nature of the news, whether it is good or bad.

## Float and Market Cap

As an active day trader, it is crucial to understand the link between company size, risk, and return potential. Such information is vital as you lay the foundation to pursue long-term trading goals. With such knowledge, you can build a balanced watch list that comprises different market caps.

Market cap means market capitalization. It expresses the stock value of all the company shares. To arrive at the market cap of an entity, multiply the entities' shares by the stock price. An Entity with $50 million in shares with each share trading at $20 then $10 billion will be its market cap. Market cap is necessary because it helps traders to understand and compare the size of different companies. Market cap helps you to know the worth of different companies in the open market. It also helps you to understand how the market perceives a particular company and mirrors what investors and traders are ready to pay for its stock.

**Large-cap stocks:** $10 billion and over is their stock market value. Typically, these are reputable companies that produce quality goods and services. They experience steady growth and have a history of consistency in dividend payments to their shareholders. Their brand names are familiar to national and even international consumer audience. They are dominant

players in their respective industries of the establishment. They are ideal for conservative investors since they pose less risk as they have less growth potential.

**Mid-cap stocks:** Typically, these are businesses with a minimum market value of $2 billion and a maximum market value of $10 billion. In other words, their market value is between $2 billion and $10 billion. They are medium-sized, established companies with growth potential. Such companies are either experiencing rapid growth, or there is an expectation that they will grow rapidly in the near future. They are in the stage of boosting their competitive advantage and widening their share of the market. This is a crucial stage since it determines their ability to attain maximum potential. In terms of risk, they have less risk in comparison with new startups. When it comes to potential, they offer more potential than blue-chip companies since they are expected to continue to grow until they reach full potential.

**Small caps:** their market stock value ranges from $300 million to $2 billion. They are growing businesses that are just emerging in the industry. They are the riskiest and the most aggressive and rely on niche marketing to survive in the industry. Due to limited resources, they are vulnerable to economic shocks. They are susceptible to intense competition and market uncertainties. Since they are new startups, they have high growth potential in the long-term, and they are ideal for investors who can cope up with volatile stock price swings in the short-run.

Float, on the other hand, is the number of shares, which are available for trading by the general public. Unlike the market cap that calculates the total stock value of all company shares, free-float does not include locked-in shares. Locked-in shares are those that are held by company employees and the government.

## Pre-Market Gappers

Pre-market trading refers to trading activities that take place between 8 am and 9:30 am EST every trading day. This is usually before the regular market session begins. Traders and investors monitor the pre-market trading period to judge the direction and the strength of the market while waiting for the regular trading session. During the pre-market activity, there is limited liquidity and volume. Wide bid-ask spreads is a common thing during the pre-market period. The type of orders that can be used during this period is

limited by many retail brokers, even though they offer pre-market trading. As early as 4 am, direct-access brokers begin to allow access to the pre-market activity to start. It is crucial to bear in mind that there is a limited activity during this pre-market period.

## Real-Time Intraday Scans

A stock scanner is a screening tool that uses user-selected criteria and trading metrics to search the market and find stocks that meet the set standards. They can be modified to find the most suitable candidates that match user-specific filters using technology. They have helped to streamline the time-consuming task of attempting to trace new trading opportunities. This makes it efficient and convenient for traders to quickly find potential stocks. It is an essential tool for traders and investors due to its speed and convenience.

Real-time intraday scans are essential for day traders, and they work to spot stocks during market hours. They produce results that are highly sensitive to time and require the trader to analyze them quickly on the fly to determine whether a trade should be made. Intraday patterns require quick action as they develop and fade within a short period. Real-time intraday scans help day traders to maximize the limited time duration they have to make decisions before the patterns shift. They are a great way to introduce a trader to new stocks, especially when they search the whole market for candidates. These new stocks can then be added to the watch list. These new stocks can then be monitored to get acclimated to the liquidity, trade volume, spread, and the pace of the price action. A trader can dramatically narrow his field by modifying the filters to search only for stocks that meet his desired price range and minimum volume requirements.

CHAPTER 16:

# Economic Factors Influencing Investment Prospects

Take a quick look at the headlines in the world's newspapers today and you'll see that huge events happen all the time. As a general rule, anything that causes fear and uncertainty is going to have a significant impact on the Forex market – and on your own individual trades, too. You can't see most of them coming, but you can prepare. These massive events can include natural disasters such as earthquakes, hurricanes, conflict from wars or terrorism events, and human-created disasters such as the meltdown of a nuclear reactor. It's not uncommon for a country to shut down its markets when a massive event happens for the simple reason that panic can often lead to a crash. It's a way to ensure that cooler heads prevail before disaster strikes the financial markets. When the market is shut, there's nothing you can do about your trades — they are frozen for the duration and your orders will not be fulfilled. The best way to avoid this from having a severe effect on your capital is to make sure you always leave stop-loss orders to automatically protect your position even when you can't do so yourself.

There are myriad influences on the market and they're all happening constantly, each one pushing the market up and down of their own accord while remaining just one part of the spider web and thus influenced in turn by other influences. Some of these influencers have global impacts and some will only affect certain aspects of a single country.

## Option Expirations

Be aware that funny things can happen on the monthly and quarterly expiration dates for the options market. Sellers will be aiming to secure certain price levels, which means volatility that can have a knock-on effect. Avoid these dates for new trades.

## Statements from Officials

When officials from governments and banks make statements about the

economy and financial situation, it can hold great weight with the marketplace. Watch out for press releases and even the minutes from meetings, as these can change the marketplace almost instantly, especially if they imply changes and movements that had not been foreseen.

## Business Activities

When huge companies deal internationally, there is always a need for currency exchange. To acquire assets, even make big trading deals, one partner will need to exchange their local currency to pay the other partner. This temporarily changes how much cash is available in either currency, affecting demand and supply.

## Market Ratings

Certain financial service companies are tasked with analyzing a country's finances and rating them accordingly. A triple-A rating ("AAA") means that the country has the capacity to meet its financial commitments; the lower the rating, the less they are believed able to do this. When ratings are released, they can significantly impact the economy of the country. A downgrade will have a negative impact, while an upgrade will have a positive impact.

## Interventions

We've mentioned already that central banks in certain countries can be a lot more hands-on than in others. In truth, most central banks are willing to get involved if the currency is spiraling in one direction or the other, though some more than others. It's worth knowing how hands-on the central banks are in the countries you'll be dealing with, because an intervention will adjust the volatility and impact the currency dramatically.

## Political Changes

The markets don't like uncertainty, and a change in leadership is very much a time of uncertainty. When a country votes in a new administration, it's impossible to be sure who will win that election and what policies they will aim to fulfill. For the most part, you'll find that the volatility increases for that currency while the election is ongoing and for a certain amount of time afterward, until the new administration has made its intentions clear.

## The Bond Market

The bond market is a huge piece of the financial marketplace and, as such,

has a big impact on trends in currencies. Informed traders like to stay abreast of what's happening in the bond market because the way money flows in and out of it correlates with what's happening in the currency market and can be very influential in pushing trends.

## Monetary Policies

Central banks handle interest rates and the supply of money. Policies are used to maintain control over inflation and make sure the currency remains as stable as possible. It's arguably much easier to keep an eye on these policies and predict what they will do to the market because they are aimed directly at the markets, so they have clear aims that will have clearer effects on your trades.

## Government Policies

Laws and regulations that a government puts in place can have a significant impact on the market. The objective of these policies tend to be directed towards keeping prices stable, making sure employment levels are as high as possible and promoting the economy. Be aware that there are many tools a government can employ to influence what's happening to the economy, from new tax policies to a policy that aims to increase business activities.

## Analyzing an Economy

The many economies of the world are in a constant state of flux. You now know where to look to find out where in a cycle they currently are —and make trading decisions accordingly— but what do those cycles actually mean?

When boiled down to the basics, an economy is either going to be in a time of expansion or a time of recession. In the former case, there is an increase in economic activity and gross domestic product, which means more disposable income and thus spending, better employment levels and more demand.

A recession is basically the opposite and will see a drop in economic activity that has a blanket effect across internal markets for such things as housing and labor. If this gets bad enough or goes on for long enough, it becomes known as a depression.

Within those cycles you'll find inflation and deflation. Inflation refers to the prices being charged for items and services and usually rises when there is

more demand than supply. Deflation, once again, is its opposite.

Gross domestic product refers to the overall value of those items and services that a single country generates over the course of one year. It's what the central banks tend to use to analyze the growth of the economy, which means it's also the best place to look to find out whether that country's economy is on the rise or on the decline.

It represents how much consumers are consuming, how much investment and government spending is going on and how much exporting is taking place.

Meanwhile, the "balance of payments" can tell you how healthy the economy is in comparison to others in the world, and it can do so fairly directly. It refers to all international activities and is considered to be in a good state when the country is accepting more payments from other countries than it is making.

The financial account will tell you how many international assets the country owns by looking at change in ownership. The country's budget deficit —the amount it must borrow above its income from taxes to meet the needs of its budget— will also indicate its internal economic health.

In general, what all these things will tell you is how risky the market is at the current moment. An economic decline is a time for safe bets, so it's usually when you'll find traders turning their attention to those safe currencies. In a time of increase, they will look more towards riskier currencies, which include the Canadian dollar, the Australian dollar, the New Zealand dollar, the British pound, and the Euro.

CHAPTER 17:

# Effective Methods for Manage Your Money

The truth is that many traders, especially novices, started with a lot in their trading accounts, and at the end of the day, they had little or nothing to boast. Many of them lost their funds because of thoughtless actions or not following a well-crafted strategy. There are some things that you have to do to manage your money well.

## Choose the Right Lot Size Based on Your Capital

When you start at forex training or financial market trading, you will tend to learn about trading lots. What we mean by a lot is the tiniest trade size available that can be placed when you decide to trade currency pairs on the foreign exchange market.

Usually, brokers tend to talk about lots using increments of a thousand or a micro lot. You have to understand that the lot size determines directly, as well as shows that risk among that you are willing to take.

Using a risk management calculator or a top like that can help you know the right lot size, based on what your trading account assets are currently. This can be used when you are trading life, or you are merely practicing. It allows you to know what amount that can be risked.

The trading lot size affects how the market movements can affect the accounts. Let's use an example.

When a 100-pip move occurs, it won't have so much effect on a small trade like a similar 100-pip move on a trade size that is quite massive.

As a trader, you will see several lot sizes.

We will explain the lots as follow:

## Trading with Micro Lots

The tiniest tradable lots that can be used are called mini lots. A micro lot has a thousand units of the currency that is in your account. If you have funded your account with USD, a micro-lot of that has a value of a thousand dollars,

as the base currency.

If you have decided to trade a dollar-based pair, a pip means ten cents.

As a beginner, it is favorable to use micro-lots to reduce your risk while you practice trading.

Mini lots have ten thousand units of the currency that you use to fund your account. If you are making use of an account with dollars as its base currency, then every pip in the trade would be valued at around $1.00.

As a beginner that wants to begin with mini lots, you should be adequately capitalized.

A dollar per pip may seem quite tiny, but the market sometimes gets to a hundred pips daily. Sometimes, this may happen in one hour.

If the forex market isn't moving in your direction, this means that you have made a loss of a hundred dollars.

It is you that will choose your ultimate risk tolerance. Before you can trade a mini account, you shouldn't mind using at least two thousand dollars.

**Using Standard Lots**

A standard lot has a hundred thousand units of the base currency in a trading account. If you have a base currency of dollars, this is a hundred thousand dollar lots. The normal pip size for a standard lot is ten dollars for every pip.

When the trade is against you by ten pip, this is a loss of hundred dollars. Institutional-sized accounts use this type of lot.

What this translates to is that you should possess at least $25,000 to be able to carry out trades using standard lots.

A lot of forex traders tend to make use of either micro-lots or mini lots.

To a novice, this may not seem glamorous, but when you keep the lot size proportional to your account's size, your trading capital will be preserved, and you can easily trade with it for a long while.

Let's use an illustration;

Using a small trade size compared to what you have in your account can be likened to strolling on a sturdy bridge with a shelter to prevent any issue from worrying you. It doesn't matter if heavy rain occurs; you will be sheltered.

If you place a big trade size compared to the account funds, it can be likened to walking on a narrow bridge. In this case, the bridge is fragile and narrow, meaning that you can fall. A tiny movement in the market could toss you away and lead you to a spot that you can't return from.

Below are some things you should consider before you begin.

**Do not let your gain become a loss**

One thing that has been noticed is that many forex traders tend to turn their profit into a loss. The forex market worldwide does at least $5 trillion daily. This has made it the most significant financial market globally.

The fact that Forex is lucrative has made it popular amongst many traders from novices to experts in the field.

Since it is quite easy to get involved in Forex because of the little costs, round-the-clock sessions, and so on, it is also straightforward to lose your capital as you trade Forex.

To ensure that your gain doesn't turn to a loss as a forex trader, you should try and avoid some mistakes.

**Learn, Learn and Learn**

The fact that it is quite easy to get involved in Forex has led many people to get involved without bothering to learn. To succeed in Forex or any financial market for that matter, you need to learn. You should learn from live trading, experience, as well as reading up on forex literature. Don't forget the news. You spiel find out about economic and geopolitical factors that affect the preferred currencies of a trader.

The world of Forex is ever-changing, meaning that you must keep yourself abreast of these changes in the regulations, market conditions, as well as global events.

While you undergo the research process, you should also consider creating a trading plan.

This plan should involve a method where you can screen and analyze investments in a bid to determine how much risk should be expected when creating investment goals.

**Use only a reputable broker**

The truth is that the forex world isn't so regulated, unlike others, meaning that you may end up carrying out business with unscrupulous brokers. It is advisable that you only open an account with a National Futures Association (NFA) member if you want your deposits to be safe. You are interested in the integrity of that broker. Use only brokers that are listed as futures commission merchant with the regulatory body of your country. If the broker isn't registered, avoid them.

It is also advisable that you study the brokers' account offerings like commissions, leverage amounts, spreads, account withdrawal, funding policies, and so on. You can find these out by talking to a customer service representative.

**Utilize a practice account**

Almost every trading platform out there has a practice account. This is also called a demo account or a simulated account.

The account permits traders to carry out hypothetical trades that do not need a funded account. Using a perceive account allows the trader to get used to order-entry techniques quickly.

Using a practice account allows the trader to learn, thereby avoiding a lot of mistakes in their trading account.

We had seen cases of when a novice trader erroneously adds to a losing position when he intended to close the trade.

Several errors in the order entry could worsen to a big losing trade. Losing funds is not the only issue; you have to also battle with a stressful and annoying situation.

There is nothing wrong if you decide to try out order entries before you start to place the real money on live trading.

**Keep Your Charts clean**

When a forex trader creates an account, he or she may be tempted to use every tech assessment tool available in the trading platform.

Many of these indicators are high in the foreign exchange market, but you should reduce the hunger of analysis methods you use to be efficient.

You are making use of several similar indicators like three oscillators, or as

three volatility indicators may come off as unnecessary. Sometimes, you may even get opposite signals. You should try and avoid this.

If you aren't using an analysis technique well, consider taking it out of your chart. It is also essential that you look at the total appearance of the workspace.

The hues, kinds, and fonts of price hard such as candle bar, line, range bar, and so on that you use should craft out an easy-to-read-and-interpret chart, permitting you to respond to the ever-changing conditions in the market quickly.

**Stop Loss Order Is Not Just for Preventing Losses**

Stop-loss orders are used a lot in preventing losses, but it does more than that. It can also be used in locking profits. If used for this, it is sometimes called a "trailing stop."

At this point, the stop-loss order is being set at a percent height that is beneath the current market price and different from the price that it was bought.

The stop loss's price fluctuates the same way the price of the stock adjusts.

This means that if the price of a stock increases, you may have to battle with an unrealized gain. This means that you won't have the money with you until after the sales.

Making use of trailing stop permits you to allow your run, and still guarantee you an amount of realized capital gain.

You must note that the stop-loss order will always be a market order, meaning that it would lie low until the trigger price has been reached. This means that the price your stock may sell for may end up being a bit different from what you specified as your trigger price.

**Benefits of stop-loss order**

One thing that we all love about stop loss is the fact that we don't have to pay a dime to implement it. The normal commission is only charged when you have reached a stop-loss price, and your stock has been sold. What you should see it as is a free insurance policy.

Using a stop loss ensured decisions are made based on facts and taking out

any form of emotional influence.

Many people end up crushing on their stocks, feeling that if they allowed the stock to stay on, it would surely succeed, even when the facts are saying another story. This leads to delay and procrastination on the part of the trader, and before you know it, he is raking in unimaginable losses.

It doesn't matter what kind of trader you see yourself as; there must be a reason you have decided to own a stock.

The criteria listed by a value investor is usually different from the one listed by a growth investor and an active trader.

**CHAPTER 18:**

# Trading Strategies for Beginners

Many make the error of thinking that you need a highly convoluted strategy for intraday success. Still, the suggestion is to always go with the simplest of the solutions and ideas.

Apart from all the vital factors, you should also incorporate these below mentioned essential components into your approach.

- **Money Management**

Sit downward and find out how much you're prepared to drop before you initiate. Keep in mind that most effectual traders would not place more than 2 percent of their wealth per trade on the ground. If you want to be around when the wins' start progressing in, you have to support yourself for some defeats.

- **Time Management**

Don't plan to create a fortune if you're just assigning an hour or two a day to trade. You have to trail the markets always and be on the lookout for trade opportunities.

- **Start Low**

Stick to the greatest of three stocks during a single day when you're finding your feet. It's much better to get good at a few than being mediocre and not making cash on lots.

- **Education**

Knowing the intricacies of the market isn't enough, you need to keep updated. Make sure you stay up-to-date with market reports and any developments that affect your properties, such as a financial policy change. You will find a diversity of financial and business tools online, which will keep you in the circle.

- **Consistency**

It’s easier than it appears when you’re five coffees in, and you’ve been staring at the computer for hours to keep thoughts in the bay. You need to be motivated by math, logic, and your preparation, not by nervousness, fear, or greed.

- **Timing**

As it opens every day, the market can turn out to be changeable, and although experienced day traders will be intelligent to read the trends and advantages, you should propose your time. But grasp on for the first 15 minutes, and you still have hours in front of you.

- **Demo Account**

A must has source for any beginner, but also the perfect position to the backrest or play with new or complicated, advanced traders strategies. Many demo accounts are unobstructed, so feel free to have one.

## Breakout

Breakout strategies focus around when the cost on your chart reaches a defined level, with an augmented volume. After the benefit or security breaks above confrontation, the breakout trader enters a great arrangement. Alternatively, if the stock falls below to hold up, you’ll reach a little spot.

Following an asset or commodity trades above the defined price limit, volatility characteristically rises, and prices regularly trend towards running away.

You need to discover the right instrument for the trade. Bear in the brain the level of hold up and resistance of the asset when doing so. The more often those points have been smacked by the market, the more they are validated and essential.

## Entry Points

This part is pleasant and straightforward. Prices set to close up, and higher rates of confrontation warrant a bearish role. Prices set to close and need an optimistic place below the support level.

## Plan your Exits

Make use of the up to date performance of the asset to set a sensible price target. Using chart trends will intensify this cycle even more. To create a goal, you can work out the average recent price swings. If the standard price change over the last few market fluctuations has been 3 points, which would be an evenhanded target. Once that objective reaches, you can exit the trade and enjoy the advantage.

## Scalping

Scalping is one of the most comprehensive strategies. In the forex market, it is particularly common, and it looks like capitalizing on minute price changes. The foundation is quantity. As soon as the trade is money-making, you can search for sales. It is an exhilarating and fast-paced way to trade, but it can be hazardous. To balance out the low-risk/recompense ratio, you need a high trading possibility.

Search for aggressive products, be profitable in liquidity, and be hot on time. You can’t wait for the financial system; you have to close your losing trades as rapidly as you can.

## Momentum

This strategy, which is familiar amongst trading strategies for starters, revolves around acting on news sources and identifying significant tendency movements with the help of high dimensions. There’s always at least one stock moving around 20-30 percent each day, so demand is abundant. You just hang on to your place until you see signs of spinning back and then get out.

On the other hand, the price drop will fade. It rounds off your price objective as soon as quantity starts to diminish. If used properly, the strategy is straightforward and efficient. You must also make sure you are aware of approaching notifications of news and earnings. Just a small number of seconds on any trade will make all variation to your earnings at the end of the day.

## Reversal

Although powerfully and potentially hazardous when used by beginners, reverse trading used wide-reaching. It is also known as pattern trading, trending pulls back, and a mean reversal strategy.

This strategy defies simple logic because you are trying to trade the pattern back. You require being able to recognize the potential pullbacks accurately, plus predict their power. To do so effectively, you need detailed knowledge and understanding of the business.

The ‘daily reversal’ strategy considered a special reverse trading occasion because it focuses on buying and selling the low and high pullbacks/reverse each day regularly.

## Using Pivot Points

A pivot point line of attack for day trading can be overwhelming to be familiar with and operate on vital support and resistance rates. It is predominantly useful in the forex market. Additionally, range-bound traders can use it to describe entry points, while trend and breakout traders can use to activate points to find key levels that need to break to meet the criteria as a breakout for a jump.

CHAPTER 19:

# Advanced Day Trading Strategies

When you are looking forward to capitalizing on the small frequent price movements, day trading strategies are the best for you. Any effective strategy that you will choose must be consistent and must rely on in-depth technical analysis that utilizes charts, market patterns and price indicators predicting future price movements.

It is your responsibility to choose the most appropriate strategy that best fits your requirements. As a trader, it is good that you know the average daily trading volume.

## Fallen Angel

A Fallen Angel is a strategy that involves a bond that has been reduced to junk bond status from an investment-grade rating as a result of the issuer's weakening financial conditions. In terms of stock, a fallen angel refers to a stock that has always been high and now has fallen considerably. Fallen angel bonds can be a sovereign, corporate or municipal debt that a rating service has downgraded. The main reason for such downgrades could be attributed to revenue decline that generally jeopardizes the capabilities of issuers to servicing debt. The potential for downgrade often experiences a dramatic increase when expanding debts are combined with expanding debt levels. The securities of fallen angels are at times so attractive, particularly to contrarian investors who seek to capitalize on the potential. This enables the issuer to recover from the temporary setback.

### Example

Due to the ever-falling oil prices over several quarters, an oil company has reported sustained losses. The company, therefore, can decide to downgrade its investment-grade bonds to junk status as a result of the increasing risk of default. This will result in a decline in the prices of the company's bonds and as well increase yields thus, this will make the contrarian investors to be attracted to the debt as they only see the low oil prices as a temporary condition. However, there are conditions where you are likely to go at a loss

especially when the fallen angel bond issuers do not recover. For example, is there is an introduction of superior products by a rival company, the issuers may fail to recover.

## ABCD Pattern / Reverse ABCD Pattern

The ABCD pattern is a pattern that shows perfect harmony between price and time. ABCD pattern usually reflects the common and rhythmic style on the market movements. The geometric price/time pattern consists of three consecutive price trends with a leading indicator that can guide a trader to determine when and where to enter and exit a trade. As a trader, ABCD Pattern can be very important in identifying the available trading opportunities in any market (be it futures, forex or stock) on any timeframe (be its position, intraday or swing), and in any market condition (be it range-bound, bullish or bearish markets). Before placing a trade, ABCD Pattern can help you determine the reward and the risks of trade.

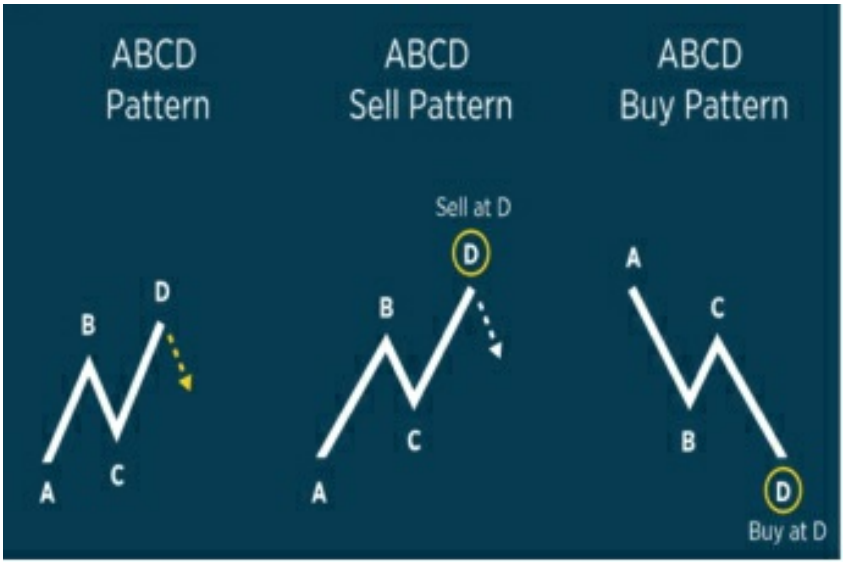



Fig. 1: A representation of the ABCD Pattern (Above)



Fig. 2: ABCD pattern on a trading chart

## Bull Flag and Bear Flag

With technical analysis, a flag refers to a price pattern that can explode and move within a shorter timeframe to the prevailing price trend that has always been observed in longer time frames on a price chart. With the flag patterns, a trader can identify the possible prevailing a trend that is continuing from a given point where the price has drifted against the same trend. Therefore, in the case that the trend resumes, by noticing the flag pattern, there will be a rapid price increase and this makes the timing of a trade advantageous. Flags are areas of tight consolidation in price actions and they show a counter-trend sharp directional movement in price. This pattern has 5 to 20 price bars.

## Bullish Flag Formation

These are formation patterns observed in stocks that have a strong uptrend. Bull flags got their names from the fact that the pattern closely resembles a flag on a pole. A vertical rise in-stock results to a pole and a period of consolidation results to a flag. The flag is usually angled down away from the trend that is prevailing but also can be a horizontal rectangle. The bullish flag pattern starts with a strong price spike that is almost vertical. The prices then peaks and forms an orderly pullback where the lows and the highs become almost parallel to each other making them almost to form a tilted rectangle.

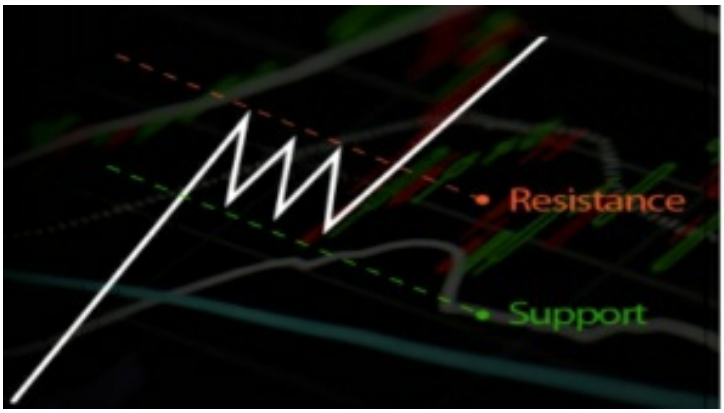



Fig 3: Bullish Flag Formation

The parallel diagonal nature is reflected by the plotted trendlines (both lower and upper trendlines). The breaking of the upper resistance trend line forms the first breakout. Another uptrend move and a breakout are formed when there is an explosion of the prices, causing prices to surge back towards the high of the formation.

**Bearish Flag**

Comparing to the bullish flag, this flag is an upside-down version of the bull flag. The bearish flag is an inverted version of the bull flag. In this case, an almost vertical panic price drop is formed by the flagpole because the sellers make the bulls to get blindsided and, as a result, there is a bounce having a parallel lower and upper trendlines, forming the flag. The panic sellers are triggered when the lower trendlines break. This flag is similar to the bull flag in that the severity of the drop on the flagpole will determine how the strength the bear flag can be.

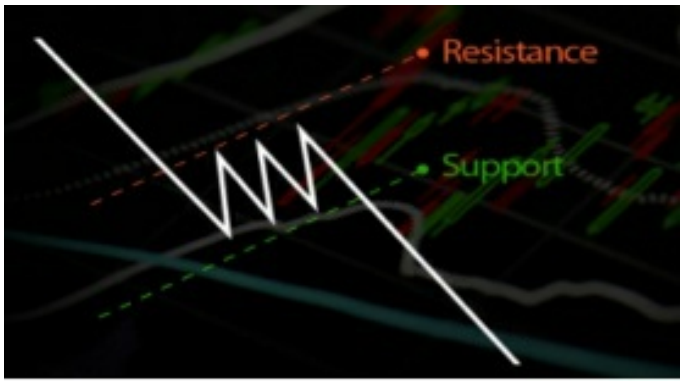



Fig. 4: The Bearish flag

**Develop Trading Skills**

To become a trader, you are required to not only know about just finance or business but also in hard science or mathematics. You must be an individual who can do deep research and analysis that can mirror the economic factors from a broader perspective as well as the day-to-day chart patterns impacting on different financial markets. As a trader, it is crucial that you need to sharpen your ability to concentrate and focus, especially in a fast-moving environment containing different people with different goals and ideas. You must also be able to practice self-control and regulate your emotions even when in situations upsetting you. Lastly, you should always be able to keep an accurate record of your trades to check on your account and to provide you with a learning opportunity that will help you become a better trader.

**CHAPTER 20:**

# Controlling Emotions After a Loss

## Do Not Take Huge Risks

Avoid greed at all cost when it comes to day trading. Before taking any risk, look at the possibility of losing the money. If you cannot cope with the possibility of losing, then it is not worth investing your money. Always keep in mind that even with the best strategies, the chances of winning investment in a stock market is 50/50. Also, take time to learn the exact ratios that apply in the stock market since they fluctuate from time to time.

## Don’t Invest with The Intention of Revenge

As a human being, you are likely to respond to an inevitable failure with a vengeance. Never approach day trade with such plan since you are likely to fail terribly. In case of a failure, sit back and study to know the cause of your failures. Take time to strategize your move. I can assure you that getting into the market an intention of revenge will cause you more harm than good.

## Do Not Trade Too Many Times

You should trade once in a while. Only put on an investment when an excellent opportunity presents itself. Proper analysis is essential before putting your money on any stock market. However, you can spend as much time as you can analyze the market situation instead of doing the actual trading. Quit spending too much time trading since it is a recipe for disaster.

## Do Not Scalp If You Are New in the Market

Scalping is merely taking a short cut by taking on trades that last only for a few seconds. Even though scalping is the right way of making good money, it is precarious. You need a certain level of skill and experience to understand and predict a sudden shift in market movements. In every trade you take, you required to pay spread fee notwithstanding the direction taken by any trade. Therefore, experience and knowledge are essential since you have got to achieve pips above the spread cost.

It is essential to take notes as you try different strategies. Stock marketplace, experience, and knowledge are the two most important factors.

**Do Not Trust Unreliable Sources of Information**

Often you receive emails, text messages or advertisements claiming a good profit on any stocks. Not that you shut down such sources, ensure the information they give is authentic and reliable. As a good trader, be careful not to fall into the hands of brokers who are hungry for commotions. These people can easily land you into bad trade hence losses.

**Keep Away from Penny Stocks**

As a starter in day trading, penny stocks should be the last thing you should do. Experienced traders will tell you that you should not engage in a trade that is difficult to exit. Also, penny stocks are highly illiquid; hence your chances of hitting huge profits are low.

**Do Not Refuse to Take Out Your Profits**

It natural for any human being to want more or never get satisfied with whatever they have since everyone is in business to make an extra coin. Moreover, a mistake comes in when you want to make quick money. As a result, every trader wants to make unimaginable profits with their first trade. However, in the stock market, which looks like a huge gain could end up to be a huge loss. Well, expecting a huge increase in your trade is not bad. However, it is essential to be realistic about the kind of profits you expect from your investment.

**Winning vs. Losing in Day trading**

Most people follow the world of online trading closely. Interestingly, some of these people never invest in trading. Well, it is not a bad thing to follow and understand how trading could impact your financial goals. However, you also need to realize that there are benefits of trying out the idea of trading. Win or lose; there is something important which you will learn from the activity. So, if you have never traded before, you shouldn’t be afraid to try. After all, there is no harm in trying. Keep in mind that various brokers will help you initiate your trading activity without having to use your funds. It is made possible by using free demo accounts.

Knowing that there is something in store for you, whether you win or lose in

day trading, should motivate you in taking the right steps to become a trader. Traders who have been in business for some time will argue that there is a rewarding feeling in learning something from an exciting activity like day trading. Some life lessons which you will learn in the process of trading briefly tackle in the following lines.

**Enhanced Decision Making**

Online trading requires one to develop a sound decision-making process as this will lead to the best results. By constantly finding a way to improve the decision-making process, a trader also increases their chances of earning good returns. The notion of doing this will ultimately have a positive impact on one's life. When a trader seeks to improve how well they make their decisions, they also end up affecting their day to day decisions. It means that the quality of life of any trader would considerably be improved.

**Self-Awareness**

With online trading, there is a guarantee that you will develop a sense of self-awareness you might have never had before. Trading with emotions will often cloud your judgment. For example, you might stay too long on a trade without selling out. Also, you could tempt to enter a trade just because you have nothing to do. You will incur losses because your decision-making process is clouded.

In real-life situations, there are many times when we blind from perceiving life with objectivity. Most of the decisions we end up making affect our personal lives. By choosing to learn how to succeed in day trading, you will also learn how to make sound decisions in life without allowing your emotions to come in the way. The best part is that you will also learn how to appreciate things the way they are. Simply stated, this is the kind of personality that day trading requires any trader.

**Entrepreneurship Skills**

Interestingly, the skills you obtain while day trading could apply in other businesses that you might be running. To succeed in business, you need to know the existence of risks which could negatively affect your business. Similarly, you need to learn how to mitigate such risks using feasible solutions. When you choose to engage in online trading, you get all these lessons for free. The strategies you employ to lower your risks can use to

ensure that your businesses always thrive. So, as earlier mentioned, whether you succeed or fail in day trading, there is something good you will be taking home.

## Uncertainty Is Your Closest Friend

Nothing is guaranteed when engaging in online trading. Markets can move in any direction. Therefore, you could either make profits or losses depending on how you predicted the markets to perform. In real-life situations, there is nothing we are always sure. Whether you are opening a new business or taking on a new venture, you have never tried before, and it is all about uncertainty. Trading in securities over the internet will help you a mentality where you accept that uncertainty is your closest friend.

## Taking Risks and Reducing Risk

Most people are afraid to try online trading because of its associated risks. A common myth you will hear from traders who have failed is that day trading is too risky and unprofitable. It is not the case. You will only lose on day trading when you fail to implement the best strategies. For instance, you need to have a risk mitigation strategy as well as an overall trading strategy. Knowing how to stomach huge risks with the anticipation of making profits is not easy. It is an art. Very few people are willing to take risks in their lives. It is the number one reason why most entrepreneurs fail. Choosing not to take a risk can prove to be costly. It is because one might end up losing out in an opportunity that would have transformed their lives. So, day trading will teach you a lot about taking risks and reducing risks.

## Importance of Diversification

The phrase “you should not put all your eggs in one basket” applies to numerous life situations. Whether in business or your career, it is always important to diversify. Diversifying your activities prevents you from making huge losses, in business, diversifying guarantees that you make profits even when one of your businesses is not working out. For instance, if you are offering two products to the market, through diversification, you can be sure that one of the products will perform well. Day trading will teach you that it is essential to diversify as it helps you spread your risks. Therefore, it is a valuable lesson for most people.

## Looking Beyond Financial Gains

There are numerous times that you must have told to have passion in whatever you do. Well, this is true for most businesses. The only way that you will truly succeed in business in your career is by falling in love with what you do. Day trading will be the right training school. It will help you understand that it is more than just the money you are after. When trading using smaller accounts, your focus will be on getting experience and learning how to trade. Ideally, your aim is learning something new from the trading activity. Therefore, there is a rewarding feeling in knowing that you are a better trader today than yesterday. With this mentality, you will live to appreciate the idea of gaining experience from any activity you engage in. Hence, if you will be opening up a new store around the corner and it fails to succeed, you will be happy you tried and failed than failing to try ultimately.

I hope you see how day trading could impact your life in many ways. If you have the right mentality when you are entering any trading market, you will enjoy the activity over the long haul. Don’t believe the hype that is out in the streets. Have confidence that your plan works despite the few losses here and there. As always, you should motivate yourself with the notion that even the most experienced of traders incur huge losses. So, before you think that day trading will not help you in any way, think twice.

**CHAPTER 21:**

# Choose The Best Instruments to Day Trade

## Trading in Stocks

The thought of trading in stocks scares away many investors. Individuals who have never traded are terrified by the fact that one can easily lose money with wrong decisions. The reality is stock trading is a risky activity. However, when approached with the right market knowledge, it is an efficient way of building your net worth.

So, what is a stock? A stock is a share. It is also termed as equity. Basically, it is a financial instrument which amounts to ownership in a company. When an individual purchase a stock or shares, it means that they own a portion or fraction of the company. For instance, say a trader own 10,000 shares in a company with 100,000 shares. This would mean that the individual has 10% ownership of the stakes. The buyer of such shares is identified as a shareholder. Therefore, the more shares one owns, the larger the proportion of the company which they own. Every time the value of the company shares rise, your share value will also rise. Similarly, if the value falls, your share value also declines. When a company makes a profit, the shareholders are also bestowed with the profits in the form of dividends.

Preferred stock and common stock are the two main types of stocks you should be aware of. The difference that lies between these stocks is that with common stocks, it carries voting rights. This means that a shareholder has an influence in company meetings. Hence, they can have a say in company meetings where the board of directors is elected. On the other hand, preferred shares lack voting rights. However, they are identified as “preferred” shares or stocks because of their preference over common stocks. In the event that a company goes through liquidation, shareholders with preferred shares will be preferred to receive assets or dividends.

Far from the information provided about the varying kinds of stock, a day trader doesn’t necessarily have to understand the difference. Remember, you are only a day trader. Thus, you will only buy shares for a short period before selling them within the same day.

- **Capital Requirements**

According to the Pattern Day Trading Rule, the minimum brokerage balance you are required to maintain for you to trade in stocks is at least $25,000. Without a doubt, this is a lot of money to start with. Surprisingly, there are tons of traders who began with a lower amount than that. To understand how this rule applies, you need to know what it means to be a pattern day trader. This is the type of trader whereby they execute more than four traders within five business days in their margin accounts.

- **Leverage**

There are two ways of trading in stocks. You could either choose to trade using a margin account or a cash account. With the margin account, it gives a trader the opportunity of buying their stocks on margin. Conversely, with cash accounts, you only buy the stocks for the amount of money present in your account. In other words, you will be trading with a leverage ratio of 1:1.

The notion of trading on margin implies that you will be seeking for funds from your broker. This means that you will be able to buy more stocks far beyond what you can normally afford. To use a margin account, a trader will be required to have at least $2,000 as their starting capital. However, some brokers will demand more. Once your margin account is open, you can get a loan amounting to 50% of the buying price of the stock.

In a real-life example, say you make an initial deposit of $10,000 to your margin account. Since you deposited about 50% of the buying price, it means you are worth twice as much, i.e., $20,000. In other words, your buying power is worth twice what you deposited. Therefore, when you buy stocks worth $5,000, your buying power will reduce to $15,000. Your leverage ratio is, therefore, 1:2. Traders with a good trading relationship with their brokers could have this ratio increased to even 1:8.

- **Liquidity**

With regards to liquidity, you can be certain that trading in stocks is not a bad idea. There are over 10,000 stocks present in the U.S. stocks exchanges. Most of these stocks are traded on a daily basis. Dealing with these stocks guarantees that you evade the common issues of slippage or manipulation.

- **Volatility**

A trader shouldn't worry about the volatility of the stocks market as they often go through cycles of high and low. This is not a bad thing as a trader simply needs to study when the markets are rising and be wary of instances when markets seem to fall.

## Trading in Forex

Most traders would argue that trading in forex is quite complicated. However, it's not. Just like any other form of trading, you have to stick to the basic rules. In this case, you need to buy when the market is rising and ensure you sell when the market is dropping. Basically, trading in forex involves the process of trading in currencies. In simpler terms, a trader exchanges currency for others based on certain agreed rates. If you have traveled to foreign countries and exchanged your currency against their local currencies, then you should understand how trading in forex works.

At first, it could seem confusing to choose the best currencies, but a trader should simply go for major currencies. Some of the frequently traded currencies include the U.S. dollar, Japanese Yen, European Union Euro, Australian dollar, Canadian dollar, and Swiss franc. An important thing you ought to understand about forex trading is that you need to trade in pairs. This means that when you are buying one currency, you should do this while simultaneously selling another. If you do some digging, you will notice that currencies are quoted in pairs, i.e., USD/JPY or EUR/USD. Below is an image showing how currencies are quoted in pairs.

Often, the most traded forex products include:

- USD/JPY
- EUR/USD
- GBP/USD

An important thing to keep in mind with regards to forex trading is that the market is highly volatile. This means that a trader could easily lose a lot of money within a single day. Before venturing into this market, a trader should take time to understand this market in detail.

## Trading in Futures

Today, most traders prefer to trade in futures due to its associated advantages.

Trading in futures is quite flexible and diverse. The good news is that a trader can employ almost any methodology to trade. Some traders shy away from this form of trading due to their limited knowledge about futures. Also, others are discouraged from trading in futures because they think that it is difficult. Well, to some extent, this is true. Comparing trading in futures to trading in stocks, the former is very risky.

There are different forms of futures contracts including currencies, energies, interest rates, metals, food sector futures, and agricultural futures.

- **S&P 500 E-mini**

Most traders will fancy the idea of trading in the S&P 500 E-mini because of its high liquidity aspect. It also appeals to most investors because of its low day trading margins. You can conveniently trade in S&P 500 E-mini around the clock not to mention that you will also benefit from its technical analysis aspect. Essentially, the S&P 500 E-mini is a friendly contract since you can easily predict its price patterns.

- **10 Year T-Notes**

10 Year T-Notes is also ranked as one of the best contracts to trade in. Considering its sweet maturity aspect, most traders would not hesitate to trade in this futures contract. There are low margin requirements that a trader will have to meet when trading in 10 Year T-Notes.

- **Crude Oil**

Crude oil also stands as one of the most popular commodities in futures trading. It is an exciting market because of its high daily trading volume of about 800k. Its high volatility also makes the market highly lucrative.

- **Gold**

This is yet another notable futures contract. It might be expensive to trade in gold; however, it is a great hedging choice more so in poor market conditions.

**CHAPTER 22:**

# Common Day Trading Mistakes to Avoid

Aside from doing the right things, you'll also need to refrain from certain things to succeed as a day trader. Following are some of the most common day trading mistakes you should avoid committing.

## Excessive Day Trading

By excessive, I mean executing too many day trades. One of the most common mistakes many newbie day traders make is assuming that they can become day trading ninjas in just a couple of weeks if they trade often enough to get it right. But while more practice can eventually translate into day trading mastery in the future, it doesn't mean you can cram all that practice in a very short period of time via very frequent day trading. The adage "the more, the merrier" doesn't necessarily apply to day trading.

Remember, timing is crucial for day trading success. And timing is dependent on how the market is doing during the day. There will be days when day trading opportunities are few and far between and there'll be days when day trading opportunities abound. Don't force trades for the sake of getting enough day trades under your belt.

Even in the midst of a plethora of profitable day trading opportunities, the more, the merrier still doesn't apply. Why? If you're a newbie trader, your best bet at becoming a day trading ninja at the soonest possible time is to concentrate on one or two day trades per day only. By limiting your day trades, to just one or two, you have the opportunity to monitor and learn from your trades closely.

Can you imagine executing 5 or more trades daily as a newbie and monitor all those positions simultaneously? You'll only get confused and overwhelmed and worse, you may even miss day trading triggers and signals and fail to close your positions profitably.

## Winging It

If you want to succeed as a day trader, you need to hold each trading day in

reverence and high esteem. Plan your day trading strategies for the day and execute those strategies instead of just winging it.

As cliché as it may sound, failing to plan really is planning to fail. And considering the financial stakes involved in day trading, you shouldn't go through your trading days without any plan on hand. Luck favors those who are prepared and planning can convince lady luck that you are prepared.

**Expecting Too Much Too Soon**

This much is true about day trading: it's one of the most exciting and exhilarating jobs in the world! And stories many day traders tell of riches accumulated through this economic activity add more excitement, desire, and urgency for many to get into it.

However, too much excitement and desire resulting from many day trading success stories can be very detrimental to newbie day traders. Let me correct myself: it is detrimental to newbie day traders. Why?

Such stories, many of which are probably urban legends, give newbies unrealistic expectations of quick and easy day trading riches. Many beginner day traders get the impression that day trading is a get-rich-quick scheme!

It's not. What many day traders hardly brag about are the times they also lost money and how long it took them to master the craft enough to quit their jobs and do it full time. And even rarer are stories of the myriad number of people who've attempted day trading and failed. It's the dearth of such stories that tend to make day trading neophytes have unrealistic expectations about day trading.

What's the problem with lofty day trading expectations? Here's the problem: if you have very unrealistic expectations, it's almost certain that you'll fail. It's because unrealistic expectations can't be met and therefore, there are zero chances for success.

One of the most unrealistic expectations surrounding day trading is being able to double one's initial trading capital in a couple of months, at most. Similar to such expectations is that of being able to quit one's day job and live an abundant life in just a few months via day trading. Successful day traders went through numerous failures, too, before they succeeded at day trading and were able to do it for a living.

If you decide to give day trading a shot, have realistic expectations. In fact, don't even expect to profit soon. Instead, take the initial losses as they come, limiting them through sensible stop-loss limits and learning from them. Eventually, you'll get the hang of it and your day trading profits will start eclipsing your day trading losses.

## Changing Strategies Frequently

Do you know how to ride a bike? If not, do you know someone who does? Whether it's you or somebody you know, learning how to ride a bike wasn't instant. It took time and a couple of falls and bruises along the way.

But despite falls, scratches and bruises, you or that person you know stuck to learning how to ride a bike and with enough time and practice, succeeded in doing so. It was because you or the other person knew that initial failures mean that riding a bike was impossible. It's just challenging at first.

It's the same with learning how to day trade profitably. You'll need to give yourself enough time and practice to master it. Just because you suffered trading losses in the beginning doesn't mean it's not working or it's not for you. It probably means you haven't really mastered it yet.

But if you quit and shift to a new trading strategy or plan quickly, you'll have to start again from scratch, extend your learning time, and possibly lose more money than you would've if you stuck around to your initial strategy long enough to give yourself a shot at day trading successfully or concluding with certainty that it's not working for you.

If you frequently change your day trading strategies, i.e., you don't give yourself enough time to learn day trading strategies, your chances of mastering them become much lower. In that case, your chance of succeeding in day trading becomes much lower too.

## Not Analyzing Past Trades

"Those who don't learn history are doomed to repeat it," said writer and philosopher George Santayana. We can paraphrase it to apply to day traders, too: "Those who don't learn from their day trading mistakes will be doomed to repeat them."

If you don't keep a day trading journal containing records of all your trades and more importantly, analyze them, you'll be doomed to repeat your losing

day trades. It’s because by not doing so, you won’t be able to determine what you’re doing wrong and what you should be doing instead in order to have more profitable day trades than losing ones.

As another saying goes: if you always do what you always did, you’ll always get what you always got. Unless you analyze your past day trades on a regular basis, you’ll be doomed to repeating the same mistakes and continue losing money on them.

**Ditching Correlations**

We can define correlations as a relationship where one thing influences the outcome or behavior of another. A positive correlation means that both tend to move in the same direction or exhibit similar behaviors, i.e., when one goes up, the other goes up, too, and vice versa.

Correlations abound in the stock market. For example, returns on the stock market are usually negatively correlated with the Federal Reserve’s interest rates, i.e., when the Feds increase interest rates, returns on stock market investments go down and vice versa.

Correlations exist across industries in the stock market, too. For example, property development stocks are positively correlated to steel and cement manufacturing stocks. This is because when the property development’s booming, it buys more steel and cement from manufacturing companies, which in turn also increase their income.

Ignoring correlations during day trading increase your risks for erroneous position taking and exiting. You may take a short position on a steel manufacturer’s stock while taking a long position on a property development company’s stock and if they have a positive correlation, one of those two positions will most likely end up in a loss.

But caution must be exercised with using correlations in your day trades. Don’t establish correlations where there’s none. Your job is to simply identify if there are observable correlations, what those correlations are, and how strong they are.

**Being Greedy**

Remember the story of the goose that lay golden eggs? Because the goose’s owner was so greedy and couldn’t wait for the goose to lay more eggs

immediately, he killed the goose and cut it open.

Sadly, for the owner, there were no golden eggs inside the goose because it only created and laid one

When it comes to day trading, greed can have the same negative financial impact. Greed can make a day trader hold on to an already profitable position longer than needed and result in smaller profits or worse, trading losses.

That’s why you must be disciplined enough to stick to your day trading stop-loss and profit-taking limits. And that’s why you should program those limits on your platform, too. Doing so minimizes the risks of greed hijacking your otherwise profitable day trades.

**CHAPTER 23:**

# Difference Between Swing Trading and Day Trading

If you are a beginner, then keep your mind open for both types of trading, do not waste your money or time in investing until you do not have enough knowledge about the trading systems. For a beginner, there are always a lot of things to learn about; whatever the field is learning about your interest is very important. Before starting any trading pattern, it is necessary to understand your needs and expectations that you have related to the trading system. First of all, the trader who wants to trade should know how much active trading he wants. What are his current requirements and expectations related to trading whether he can handle his trading system for a long time, or did he have enough stamina to bear the loss? Once you decide the right path that suits you and that you believe can fulfill your expectation, and then you can easily survive in the trading market.

Traders have divided trading into two parts swing trading and day trading. This will help you to understand the difference between both the trading systems, and it will help you in choosing which trading system is best for you. The main goal of any beginner is to gain profit on their stock, whether it's a day trader or a swing trader; at the end of the day, every trader needs their name in a profit list even though both trading has different tools and technical analysis procedures.

Day trading is about making multiple trades in a day. As the name suggests doing trade on your stock within a day but multiple times is day trading. This trade is all about doing trade within a day or hours. You cannot go beyond that time, and it doesn't matter how many times you trade in a day. The main objective of the day traders is to make money from their preexisting income in a day with their stock. This trade is only about day trading; it does not contain night hours. They do not keep any overnight securities. The biggest advantage of day trading is that the trader has fewer chances of having any kind of loss. For example, if a trader invests their money on any stock and the market rate of that stock goes down in the middle of the night, so in that case,

the trader has to face a loss, but because of day trading, the chances of losses are also less as they will not invest their money for overnight.

The day traders do not need any partner, they usually work alone, and they do not have their flexible schedule, and they do their work according to their mood and needs. They usually work at their places and take off and rap all of their stuff whenever they want. They do not need anyone’s instruction because they do their work independently.

Sometimes it becomes difficult for the beginners of day traders to compete in the market because except making money and position in the market they also have to compete with the high-frequency traders, whereas other faces more advantages than the beginners as they become professionals in their work and have more experience than them. Once you start getting profit on your stock, there will be no come back from this earning adventure; you will desire to invest more and earn more.

The day trader has to generate a lot of effort and use his skills to maintain the position in the market. A beginner who wants to have all the luxuries firstly had to quit his job to maintain all his focus on trading because it would not be easy for a day trader to continue his job as it all depends on you to keep check and balance in the market. He should be aware of multiple screening so it will help him to spot the trading opportunities.

It can be done by having just one computer, and with conventional trading tools unlike, day trading it does not require the art technology. Swing traders have overnight leverage of 50% as compared to day trading, but this margin can be risky too, particularly if margin calls occur. These trading are not so much about what you want to trade, be it commodities, i.e., oil futures or stock from the CAC 40. Instead of that, it is simply all about timing. So, where it took 4 hours and daily charts of day trading, it will be more concerned about swing trading where it took multi-day charts and candlestick patterns. Moving average crossovers, Head and shoulders patterns, shooting stars, etc. are some of the most popular. It can be extremely challenging in two markets, the bear market environment or raging bull market. Here you will see even highly active traders will not display in the same position there will be same up and down oscillation. To invest in the stock market, it's compulsory to have a well-organized method for trading. It is very important to keep things simple, as in the early stages, it will look a bit difficult for the

beginners, but instead of getting panic, they should handle them with confidence. This is another reason why this trade has a distinct advantage over other approaches to invest in a swing trade. Swing traders use technical analysis indicators to identify the price swings in the market and determine the condition of the market, whether a stock price will drop or rise in the short run. Through this, they invest capitalize in securities that have momentum and select the best time for buying or selling the stock. These technical analysis indicators help the traders to use the swing charts for their swing trading on the security current situation trend. To analyze the current trading pattern, swing traders use swing trading charts, which help the trader in providing data based on statistical analysis. Swing trading is not about the long term value of the security; instead of that, they are just concerned about the ups and downs in the stock price. Swing traders can make large returns on the stock that decay in value over time because they are making returns on each small price swing of their stock while the overall trend is downward. Swing trading and day trading appears similar in some aspects of trading. The main factor of trading is setting the two techniques apart and maintaining the position on time in the market. Unlike day traders, it does not close within minutes or in hours; it takes several weeks and overnight days. Swing traders can check their positions in the market periodically and can take action when critical points are reached.

Main differences between swing trading and day trading are:

## Trading Times

Both of them have different timings of trading. In day trading, it takes a maximum of two to four hours daily for trading purposes, and in this time, the trader manages to analyze the charts, entering and getting out of the positions, and assessment different stocks. Whereas the swing trader’s minimum needs 45 minutes in a day, update his order and find the new one. Day trading demands more time than swing trading.

## Risks

Day trader experiences more losses than swing traders because day traders may need to carry out six trades per day, whereas swing traders may need to carry out six trades per month to maintain a good position in the market. That’s why day traders had to face more struggle in maintaining their position in the market as their risk level is higher than swing traders, and they

had to engage their selves more in the market then swing traders.

## Stress

Day traders are more in stress as they have to keep their selves engage all the time with the market situation. They need great knowledge about market movements and had a great level of patience. A day trader needs to be more focused on their work. On the other hand, swing traders do not take that much pressure and can’t say that they are much focused than day traders.

**CHAPTER 24:**

# Risk and Account Management

Professional informal investors utilize a hazard the executive strategy called the 1-percent hazard rule, or change it marginally to accommodate their exchanging strategies. Adherence to the standard downplays capital misfortunes when a dealer has an off day or encounters unforgiving economic situations, while as yet taking into account incredible month to month returns or salary. The 1-percent hazard principle bodes well for some reasons, and you can profit by comprehension and utilizing it as a feature of your exchanging system.

## The 1-Percent Risk Rule

Following the standard methods, you never hazard more than 1 percent of your record an incentive on a solitary exchange. That doesn't imply that on the off chance that you have a $30,000 exchanging account, you can just purchase $300 worth of stock, which would be 1 percent of $30,000.

You can utilize the majority of your capital on a solitary exchange, or much more in the event that you use influence. Actualizing the 1-percent hazard principle implies you make chance administration strides with the goal that you counteract misfortunes of more than 1 percent on any single exchange.

Nobody wins each exchange, and the 1 percent hazard standard shields a broker's capital from declining fundamentally in horrible circumstances. In the event that you chance 1 percent of your present record balance on each exchange, you would need to lose 100 exchanges a line to crash your record. On the off chance that learner brokers pursued the 1-percent rule, a lot a greater amount of them would make it effectively through their first exchanging year.

Gambling 1 percent or less per exchange may appear to be a modest quantity to certain individuals, however, it can in any case give extraordinary returns. In the event that you hazard 1 percent, you should likewise set your benefit objective or desire on each effective exchange to 1.5 percent to 2 percent or more. When making a few exchanges every day, picking up a couple of rate

focuses for you every day is totally conceivable, regardless of whether you just win half of your exchanges.

## Applying the Rule

By gambling 1 percent of your record on a solitary exchange, you can make an exchange which gives you a 2-percent return for you, despite the fact that the market just moved a small amount of a percent. Also, you can chance 1 percent of your record regardless of whether the value normally moves 5 percent or 0.5 percent. You can accomplish this by utilizing targets and stop-misfortune orders.

You can utilize the standard to day exchange stocks or different markets, for example, prospects or forex. Expect you need to purchase a stock at $15, and you have a $30,000 account. You take a gander at the outline and see the value as of late put in a transient swing low at $14.90.

You put in a stop-misfortune request at $14.89, one penny beneath the ongoing low cost. When you have recognized your stop-misfortune area, you can figure what number of offers to purchase while taking a chance with close to 1 percent of your record.

Your record hazard likens to 1 percent of $30,000, or $300. Your exchange hazard approaches $0.11, determined as the distinction between your stock purchase cost and stop misfortune cost.

Separation your record hazard by your exchange hazard to get the best possible position size: $300/$0.11 = 2,727 offers. Round this down to 2,700 and this shows what number of offers you can purchase in this exchange without presenting yourself to misfortunes of more than 1 percent of your record. Note that 2,700 offers at $15 cost $40,500, which surpasses the estimation of your $30,000 record balance. Thusly, you need influence of in any event 2:1 to make this exchange.

On the off chance that the stock value hits your stop-misfortune, you will lose around 1 percent of your capital or near $300 for this situation. In any case, if the value moves higher and you sell your offers at $15.22, you make right around 2 percent on your cash, or near $600 (less commissions). This is on the grounds that your position is aligned to make or lose just about 1 percent at each $0.11 the cost moves. In the event that you exit at $15.33, you make very nearly 3 percent on the exchange, despite the fact that the value just

moved around 2 percent.

This strategy enables you to adjust exchanges to a wide range of economic situations, regardless of whether unpredictable or quiet and still profit. The strategy likewise applies to all business sectors. Prior to exchanging, you ought to know about slippage where you can't get out at the stop misfortune cost and could assume a greater misfortune than anticipated.

## Rate Variations

Merchants with exchanging records of under $100,000 ordinarily utilize the 1 percent standard. While 1 percent offers more security, when you're reliably gainful, a few merchants utilize a 2 percent hazard rule, gambling 2 percent of their record esteem per exchange. A center ground would be just gambling 1.5 percent or some other rate underneath 2 percent.

For records over $100,000, numerous merchants hazard under 1 percent. For instance, they may hazard as meager as 0.5 percent or even 0.1 percent on a huge record. While momentary exchanging, it winds up hard to hazard even 1 percent in light of the fact that the position sizes get so enormous. Every broker finds a rate they feel great with and that suits the liquidity of the market wherein they exchange. Whichever rate you pick, keep it beneath 2 percent.

## Withstanding Losses

The 1-percent principle can be changed to suit every merchant's record size and market. Set a rate you feel great gambling, and afterward, compute your position size for each exchange as per the unit cost and stop misfortune.

Following the 1-percent guideline implies you can withstand a long series of misfortunes. Expecting you have bigger winning exchanges than failures then you locate your capital doesn't drop in all respects rapidly, however rise at a great rate. Before taking a chance with any cash—even 1 percent—practice your procedure in a demo record and work to make steady benefits before contributing your genuine capital.

## Position Size

Not gambling an excessive amount of cash on some random exchange is fundamental for any informal investor. Tragically, when a great many people begin exchanging, they don't consider the hazard that they are taking – just

about the potential prizes.

Each exchanging methodology must think about the most extreme level of the all-out exchanging capital that ought to be gambled in any one exchange. Truth be told, a broker's capacity to confine his misfortunes is similarly as significant (or much increasingly significant) as his accomplishment in overseeing winning positions.

Consider it. On the off chance that a merchant misfortune a modest quantity on each exchange, won't he remain in the game much more? Taking immense misfortunes is one of the essential reasons why such a large number of dealers don't make due around here. For what reason do brokers submit money related suicide along these lines, you may inquire? In the event that every single enormous misfortune begin little, shouldn't it be anything but difficult to keep a little misfortune from getting to be unmanageable? The appropriate response is a resonating "YES."

Restricting misfortunes in day exchanging includes a great deal of good judgment. In the first place, I don't figure any merchant should hazard more than 2 to 5% of his exchanging capital on some random exchange. Why? In the event that a dealer adheres to a 1% to 2% most extreme misfortune rule, his odds of remaining in the game are incredibly expanded in light of the fact that it will take numerous continuous misfortunes to clear him out and he will have more cash making openings accessible to him.

In the event that a merchant will deal with a $10,000 account, he ought not to lose more than $100 to $200 (1% to 2%) on each position taken. Utilizing a similar thinking, on the off chance that we are managing an exchanging account that is $100,000 in size, the most extreme suitable misfortune can be expanded to $1,000 or $2,000 per exchange. In light of these rates and on the sum the cost can move against the broker (decided from the graphs), he can compute the most extreme size his position ought to have. This turns out to be much clearer with a numerical model:

Position Sizing Example utilizing Currencies (to get familiar with monetary standards, read this segment)

Accept that a financial specialist can exchange a ton of one hundred thousand United States Dollars starting out with a nest of two thousand dollars (that’s a fifty against one influence) and that the trader has ten thousand dollars in a record. With this record size, he can exchange a limit of five parcels (2000

dollars per five parcels in his edge store = ten thousand) at any given moment – however is this a savvy activity? We should investigate this somewhat further.

Hazard in day exchanging (or in some other type of hypothesis) must be controlled. One compelling method for overseeing danger is by not taking on a position bigger than a record of a given size can deal with. While a few creators and "specialists" have convoluted methods for deciding position size, these strategies will in general confound dealers and moderate them down. The one to two percent rule is easier to use as I would like to think. It is good judgment more than everything else. Try not to turn into another exchanging measurement by using stop orders as a defensive measurement; you can really mitigate your losses. Peruse further stop options by considering this tactic.

CHAPTER 25:

# Order Types

Trading is somewhat more complex than just buying and selling. There are various ways you can buy and sell using different order types, and each order has its distinct function. With the growing awareness of the importance of the internet and digital technology, several investors now prefer to trade for themselves rather than pay large commissions to advisors to execute trades. But, before you can begin to buy and sell stocks, you need to know the different order types and when to use them.

## Market Order

A market order, which is the most basic type of trade, is an order to buy or sell security instantly, irrespective of what the price is at the moment. This type of order gives assurance that the order will be applied but does not give assurance of the execution price. A market order generally will come to play at or near the present bid. So, if you want to buy a stock immediately, you will buy at a price that is close to or at the posted Ask. To sell a stock with this order type, you will be credited at a price that is close to or at the posted Bid.

However, traders need to know that market order may not be executed at the last traded price of that stock, especially in a volatile and fast moving market. The only time the price remains the same is if the bid and ask prices are exactly the same as the last traded price. This order type is popularly used by traders who need to sell or purchase a stock without any delays. One advantage of this order type is that you have the assurance that your trade order will be filled, in fact, it will be done ASAP. And even if you can’t tell the particular price for the execution, market orders on securities that trade above tens of thousands of shares each day are likely to execute close to the ask and bid prices.

## Limit order

This type of order is also referred to as pending orders. It allows traders to buy and sell securities or stocks at a defined or better price in the future. This

order type executes a trade only if the price hits the pre-set price if not, the order remains open. So, a limit order sets the minimum or maximum price you want to sell or buy a stock. For instance: An investor wants to buy shares of XYZ stock for not more than $20. The investor will fill a limit order for $20. In essence, the investor will not pay more than $20 for that stock, but he can buy the stock for less than $20.

We have four types of limit orders. Let us look at each below:

- **Sell Limit**

This is an order type set to sell a security or stock above or exactly at a specified price. To get the best price, you need to place the order above or at the current market ask.

- **Buy Limit**

This is an order to buy a stock below or exactly at a specified price. To get the best price, you need to place the order below or at the current market bid.

- **Sell Stop**

This is an instruction to sell a stock at a price that is below the current market asked. This order type only gets filled once the trade gets to the pre-determined price level. Sell stop orders are placed below the market while the buy stops are placed above the market. Once a trade hits the stop level, it instantly converts into a limit order or market order. This type of order is used to exit long trades.

- **Buy Stop Order**

This is an instruction to purchase a stock at a price that is above the current market bid. Just like the sell stop, this order type only gets filled once the trade gets to the pre-determined price level. This order type is used as a stop-loss on short positions, particularly when the price is moving against you.

## Stop-Loss Order

This is also known as an on-stop buy, on-stop sell, or stopped market. This order type is one of the most useful orders and differs from market order and limit orders. For this order type, the order stays dormant until it passes a certain price, then it gets activated as a market order. For example, if you

place a stop-loss sell order on ABC shares at $50 per share, the order will remain dormant until the price gets to or goes below $50. It will then convert into a market order and then sell the shares at the best price in the market. This type of order is used for traders who do not have the luxury of time to monitor the market continually but want to protect them from massive downside move. The best time to apply this type of order is before you go on a vacation or long trips.

## Stop-Limit Order

This order type is similar to the stop-loss orders, but for this type of order, there is a set limit on the price at which they should execute. The stop-limit order has two specified prices: the limit price and the stop price (the stop price converts the order to a sell order). Instead of the order to convert to a market order to sell, the sell order converts to a limit order, which will only execute when it hits the limit price or a better price.

## All or None (AON)

This is popularly used by traders who purchase penny stocks. The order ensures that you get your complete order quantity or nothing at all. This becomes a problem if a limit is placed on the order or if the requested stock is not liquid. For instance, you place an order to purchase 1,000 shares of ABC, but the company is only selling 500 shares at the time. This type of order means that your request will not be filled until the available shares are up to 1o00 and available at your set price. But if you did not place an all-or-none order, your order for 1,000 shares will partially be filled with 500 shares.

## Fill or Kill (FOK)

This order type is a combination of the AON and the IOC (Immediate or cancel). This order commands that the whole order size be traded within a limited time, usually within seconds. The order gets canceled if the condition is not met.

## Immediate or Cancel (IOC)

This order commands that only the amount of an order that can be executed within a very short time, usually a few seconds should be filled while the remaining of the order should be canceled. If none of the shares is traded within the given interval, the trade gets canceled totally.

## Take Profit

This type of order is sometimes referred to as a profit target. The aim is to close out a trade at a profit after it has gotten to a specified level. Once the Take profit order is executed, the trade position closes. This order type is always linked to an open position of a pending order.

## Good till Cancelled (GTC)

This type of order places time restrictions on different orders. The orders stay active until you move to cancel them. For most brokerages, the maximum time you can leave an order active is 90 days.

## Day

This order type is a follow up on the GTC, in the sense that, if you did not place an expiry date on the GTC instruction, the order automatically gets set to one-day order. So, once the trading day is over, that particular order expires. You would have to re-enter the trade the following day if it did not get filled the earlier day.

## Level 2 Trading

Level 2 is a subscription-based service that gives traders real-time access to the NASDAQ order book. In this NASDAQ order book, you will find price quotes for every price level, the size on each order as well as which market maker has what order. On the left side of the Level 2 window, you will find the bid prices and sizes while the right side shows the ask prices and sizes.

This service arms traders with detailed price information, including available prices as posted by electronic communication networks, and market makers. Electronic Communication Networks are computerized orders, and anyone can trade using the ECNs, even the big traders use this ECN. Market makers give the market its liquidity; however, they can mess with traders' stop losses. Market makers are obligated to buy and sell when no one else is doing so. Therefore, they determine the market in a way. One thing you need to understand, though, is that not every order that disappears from the level 2 window is executed. Level 2 is an order book and so contains all the live orders in the market. Sellers and buyers can decide to pull out their orders at any time, which is why you will see orders disappear. Level 2 order book is very important, particularly for active traders that want to know where the interest of buyers and sellers is in the market.

While level 1 provides traders with needed information like best bid and ask prices, the level 2 goes further to display the supply and demand of the price levels outside the NBBO (National Best Bid Offer) price. The user gets to see visual display of price ranges and connected liquidity at each price level. Traders then use this information to determine entry and exit points that offer enough liquidity that a trader needs to complete the trade.

**Benefits of the Level 2 Service**

One major benefit of this service is that it offers access to rich information that concerns the market. A trader can maximize this information in several ways to make a profit. For instance, the window helps a trader to know the order sizes and liquidity volumes for stocks traded on NASDAQ. You can also identify trends by using data from the bid and ask orders.

The level 2 quotes also provide important data related to institutional investors and market makers that a trader can use to maximize his profit. For instance, you can know an institutional trader’s interest in a large stock by looking at their order sizes, and then you place your identical orders. You can use this same strategy with reserve orders (these are large orders that are broken into smaller sizes.) After you have discovered hidden orders by looking at the Level 2 window, you can then place your identical order because when institutional traders invest in a stock, they help the resistance and support levels for the price of that stock.

**CHAPTER 26:**

# How to Start Forex Trading

Forex trading is not a trade that one can pull off without breaking a sweat before exchanging currencies. There has to be prior preparation, studies done and analysis of the market patterns to make the first trade.

There are a lot of terms used that are new to a trader who is just starting off and are vocabularies to them. It would do well to an aspiring trader to acquaint themselves with the new terms and understand the meaning behind them and how to use them appropriately when trading. This will prove essential to avoid miscomprehension of certain concepts when trading. To new traders, the terms may be a little bit difficult and also have a completely different meaning than the expected one from its word-formation. The following words below are some of the new vocabularies that will be encountered by a new trader, which are common in the language of trading.

## A Pip

A pip is the lowest measure of the value of movement of currency under observation. The term pip is, however, an abbreviation of the term-percentage in point. A pip, as the lowest measurable value of the movement that the currency makes, always measures ad 1% of the currency that a trader wants to exchange. When in the forex market a currency increases or decreases by a single pip, the inference has the meaning that the currency either increased or decreased by 1%. A great example is when the market analysis tools show that the US dollar has increased by a pip. This is to mean that the US dollar has increased in its value by $0.0001.

That is how a pip is inferred and its meaning. Trade is always made in terms of pips, and a trader can make trades with many pips as possible. This is because the pips are the lowest value that is measured by the currency.

## Base Currency

The base currency is the type of currency that a trader has and is currently holding. The base currency is likely the currency of the country that you’re from. If a trader is from the US, his or her base currency will be the US

dollar. If the trader is from the UK, the base currency of the trader will be the pound. The base currencies of traders are different across many traders around the globe due to different geographical differences.

## Asking Price

The asking price is a term that is used to refer to the amount of money that your broker firm will demand from or will ask from you when you are making a trade. A broker always demands this price or this amount of money when they are accepting the pair of currencies to be traded from you. The price id for buying the quote that you've made of the pair of currencies. A note to be made is that the asking price; made by the brokerage firms, is always higher than the bid price.

## Bid Price

The bid price is mostly used in reference to the brokerage firms, where it is the amount of money that the brokers will be willing to buy or to bid the base currency that you are currently holding. The broker firm sets the bid price according to their ability to bid on the base currency that has.

## Quote Currency

The quote currency, unlike the base currency, is the currency that a trader wants and is willing to purchase, in exchange for his or her base currency. If a trader wants to exchange US dollars to get South African Rand, the currency of South Africa; the Rand is the quote currency. It is always stroked against the base currency when trading and when the currencies are made into pairs.

## The Spread

This is the commission that the broker firm receives from being a platform where forex trading can take place. When referred to, the spread means the difference in value between the bid price made by the broker and the asking price, also quoted by the broker.

### Finding the Right Broker Firm

So as to trade forex, you will have to have a brokerage firm that will be an online platform from which you'll open and close trade. Finding the right broker firm is an important process for other brokers can be a sham out to cheat people of their money. It is, therefore, paramount that a trader carries

out research on the available broker firms and picks out the best and one that is highly recommended for its services. When deciding on which broker firm to go with look and ask the bid price that the broker quotes and other important aspects, including the margin and the leverage level that they offer. The customer service should also be top-notch for the broker, which will be great for a trader who is just starting off. Most of the broker companies also offer studies on how to carry out forex trading and those come in handy to the new traders.

## Making an Analysis of the Worldwide Economy

To make gains and profits and gains in trades that you are going to make, analyzing the economic trends of the worldwide economy is of great import to be fully aware of the factors that may trigger the currencies to increase or decrease in value. This is important in making a correct prediction on the pair of currencies you're exchanging, whether they will make a profit or a loss. Factors that are important to look into when evaluating the global economy are like the political climate of countries whose currencies have a strong value, natural factors that may influence the economy of countries, the Gross Domestic Product of the country whose currency you want to exchange with your base currency, and other minor factors such as the investment rate of the said country.

Evaluating which countries are looking up to growth and development opportunities are also important in determining the quote currency to use impairing up currencies to make a trade. Also on the analysis of the worldwide economy, when the currency of the country you seek to purchase in exchange of your base currency is doing well and is set to increase in its value, convert your base currency into the quote currency. On the other hand, convert the quote currency into the base currency in case its value increases.

There are various online sites that have analysis tools on the economic performance of different countries that you may seek for them to be your quote currency. Others rank counties in terms of their GDP that makes it easier for you to choose the countries that are projected for growth and development. Being in touch with the trending news globally is a plus in getting information relevant to trading forex.

A new forex trader may subscribe to a few forex trading channels and outlets to be constantly on toes of events and happenings that may trigger the value

of currencies to either increase or decrease, which may result in the reversal of the outlook of the trade made. Having relevant information at all times is key in making gains and preventing the loss of your money and probably your account is cleared.

## Opening the First Trade

Pairing currencies and making the first trade; opening and closing a trade happens when the quote currency is to be paired by the base currency have been paired and there is an opportune trading window. Opening a trade is making an order to purchase a certain currency and in exchange for your base current through your broker firm. You'll have the analysis tools that are commonly offered by the brokers in software programs.

The execution of making an order in some platforms might be instant while in some other platforms, it might be a tad bit slower. Nonetheless, most brokerage firms offer live prices and values of the currencies that are too traded and their exchange rates and the instant changes to their values are displayed. The first trade for a new trader might just be one or others might open up new trades over a short period of time. It is advisable that just several enough trades be opened, which the new trader is comfortable and at ease in trading.

CHAPTER 27:

# 7 Rules of Day Trading

Day Trading is the ability to buy and sell financial instruments within the same trading day. There is a group of day traders called the pattern day traders (PDT) these are just traders who make more than four trades within five days and who use a margin account to trade. Day Trading has rules, and failure to adhere to certain rules can be costly. Rules also vary depending on location and the volume you trade.

The following rules of Day Trading, if used correctly, can help traders make profits and avoid huge losses.

## How to Enter and Exit a Market

Day traders should have a predetermined plan in place of when to enter and exit a market. A trader can quickly find yourself out of the game as soon as you press the enter key if they do not have a plan. As a day trader, you have to accept the fact that you do not control the market. Therefore, one of the key factors to succeeding in Day Trading is usually determined by your ability to enter and exit your trading positions. Knowing the prices at which you wish to enter and exit can help make profits or save you from losing out on more.

When making the plan:

- Use indicators
- Set a target price before you enter the market.
- Know how much stock you plan to trade
- Plan for when to exit the market — when the market is going against your expectations, do you exit your position to avoid bigger losses?

## Trading Rush Hours

Another important Day Trading rule is to avoid the first hour after the market opens and the last hour before it closes. It is wise to wait and observe during those times. Do not be eager to jump in as soon as the market opens. The first

and last hours are the most volatile times in the market. This is because the stock is likely reacting to some overnight news releases, and this is when the big investors and trading experts compete. In the last hour, traders are also rushing to close out their positions.

## Be Cautious of Margin Trading

Another important rule is to trade with the money you have, not borrowed money. It is important to be cautious of margin trading as it increases your purchasing power and allows you to use borrowed money to increase financial leverage; however, not all trades are profitable. Therefore, you risk losing the small bit of your capital as well as the borrowed money. Margin trading should be used in trades that you are sure will be profitable.

## Be Realistic

Another important Day Trading rule is to avoid greed. It is very easy to be carried away by greed when trading, do not lose out on small profits because you think you can make more. It is very important to remain realistic about profits. The market is always changing; sometimes, it is better to settle on a small profit than to make big losses.

## Be Knowledgeable

Do not day trade if you do have no sufficient knowledge of what is happening in the markets. Not everyone can trade in the market. Most traders start with paper trading and intense training. You need to be aware of information about the stocks you plan to trade, basic trading procedures, and always be on the lookout for anything that can affect your stocks. You can start by practicing using a demo account; this is a trial and error account, where you do not use real money. This account enables traders to experiment with trading before they can set up a real funded account.

## Cut Your Losses

This is the number one rule in trading; cut your losses. Placing a trade is taking a risk; every trader, even the best in the world, has had bad trading days. Losing is part of trading. Traders need to accept their losses when the market starts going against them instead of hoping for a turnaround. This can be a lethal mistake. Have an exit strategy and react accordingly. Accepting your loss reduces the chance of it happening again. By cutting your losses,

you learn from it and make the necessary changes to avoid a repetition.

## Risk Management Plan

Risk management plans help cut down losses. The idea is to avoid risking more than you can afford to lose. With a risk management plan, even when a trade goes wrong, they still have money to trade tomorrow. Traders follow the 1% rule, which allows them to trade only 1% of their capital on any single trade. This ensures that only 1% of their money is at risk on any single trade.

**CHAPTER 28:**

# Trading Psychology

To succeed in day trading, day traders require many skills, including the ability to analyze a technical chart. But none of the technical skills can replace the importance of a traders' mind-set. Discipline, quick thinking, and emotional control; all these are collectively called the trading psychology and are important factors for succeeding in the day trading business.

On the surface, day trading is an easy activity; markets go up and down and traders buy and sell with the price. Then how come 90% of traders make losses in day trading? The answer lies in trading psychology where most of the day traders fail. You will see many online courses advertising to teach day trading or technical analysis, but It is unheard of any course that teaching trading psychology to traders.

It is a well-known fact that controlling emotions of fear and greed are two of the most difficult decisions a day trader can take. Even those who prepare a trading plan, create trading rules; find it hard to stick to those rules and plans while trading in the stock markets. It is like dieting. When you are not supposed to think of ice cream, all you can do is think of ice cream.

Trading psychology identifies traders' mental and emotional state, which contributes to their success or failure in stock trading or trading any other financial security. Trading psychology is more important in day trading because here, traders must decide quickly and get to trade only for a few hours. It is like being boxed a small timeframe. For example, if a person is given two things to choose from, and given a time limit of 3 hours, he will do it in a relaxed way. However, if he is asked to decide within 3 seconds, he will panic. In other words, he will get into an emotional state.

Trading psychology involves two aspects; risk-taking and self-discipline. Traders know that emotions like greed and fear should not influence them, but they allow these emotions to affect their trading.

In greed, traders take more risk than is safe for them. Traders may try to place big trades in a hurry to earn profits. If their trades are profitable, they may refuse to exit these trades even if the exit point has come and continue

holding positions hoping for bigger profits. This behavior ultimately ends with loss because markets do not keep trending in one direction. Eventually, the market trend changes and the profitable position turn into a loss-making one.

Fear has the opposite effect but the same result for traders. In the grip of fear, traders may close their position prematurely, and then trade again to earn profits. It becomes a vicious cycle of fear and greed, where the trader is afraid to keep the position open longer but keeps trading again in greed. This results in over trading and losses.

**Fear and Day Trading**

The technical progress has made it possible for news to travel quickly and reach far-flung places. This has created a unique situation for stock markets, where the positive news has a quick and positive reaction in the stock markets; but negative news causes sudden and a steep drop in stock prices as traders become gripped by fear and panic.

In situations leading to greed, traders still pause and think, if they are being greedy. But under the influence of fear, traders usually overreact and exit their position quickly. This has a chain-reaction effect on markets. Prices fall, traders sell in fear; prices fall further, traders sell more in fear. This emotion creates bigger ripples in stock markets than greed. Traders exit from their positions fearing that they will lose their profits or make losses. The fear of loss paralyzes novice traders when their positions turn into loss-making. They refuse to exit such positions, hoping for a bounce-back in markets, hoping to turn their losses into profits. What should have been a small loss, eventually turns into a big one for them, sometimes even wiping out their all trading capital. A rationally thinking person will quickly exit from such a position. But fear is such strong emotion in day trading, that it stops even rational people from taking correct decisions.

**Rule-Based Trading**

To protect yourself from psychological risks in day trading, you must take steps to eliminate this before you start trading. There is only one thing that can protect you from the emotional rollercoaster ride in stock markets, which is a ruled based trading system.

All aspects of your day trading must be governed by a set of rules, which will

involve your trading plan and trading strategies. Every day, you must go over these rules and trade accordingly.

Before you trade, sit down and think, why will you start day trading? Are you going to do it for a side income? Are you going to do it for the excitement of stock markets? Or, are you going to do it to prove any point to somebody? Many traders fall into the egotistical trap of proving themselves right in trading. They will keep trading against the market and expect the market to change its course, instead of changing their trading style.

If you are starting day trading to earn a living, then this thought should always be uppermost in your mind. You cannot allow yourself to be distracted by small profits and losses and trade indiscriminately. This should be your goal, to earn a living, and it should be your aim of day trading every day. Before you trade, remind yourself that you are doing this for a living, not for the short-term excitement. Therefore, if you make any loss, remind yourself that in business, difficulties are a part of the cycle. Try to maintain a neutral mental state whether you make profits and losses. All your trades must be done according to your plans and strategy. Before you take any trade, know the risk-reward ratio; why you enter that trade; and when you will exit the trade with a profit or at a stop loss.

Create rules about:

- How many trades you will make every day?
- What will be your loss tolerance limit for a single session?
- What will be your profit target for one session?

Stop trading when any of these three criteria are completed. For example, if you decided to take only two trades in a session, stop trading for that session once you have completed your two trades, whether your trades were profitable. If you have created a threshold of $20 loss for a single station, stop trading if you have reached that loss limit for the session. This will teach you disciplined trading, and you will consciously try to keep your losses to a minimum.

A similar rule should be applied for profit booking. Stop trading for the day if you have reached the profit target. This profit target could be in terms of a fixed amount, or the number of successful trades. For example, some traders

stop trading once they have made a profitable trade. This is one of the best greed management techniques. If you have made a profit in stock trading, even if it is tiny, just pocket it and run away from markets. Otherwise, greed will take over and you will over-trade, trying to make more profit, and end up with losses.

**Why Trading Psychology is Important**

Most of the people fail in day trading because they start at the wrong end. They start by learning trading skills first, and then move on to money and risk management techniques, and the last stop is to learn, superficially, about trading psychology.

In fact, the right sequence of learning day trading should be learning the trading psychology first, and then money and risk management techniques and the last part should constitute learning the trading skills. It is very easy to learn technical analysis and how to use technical indicators. But it is very difficult to control one's emotions like fear and greed while trading, or astutely manage money while day trading.

If you look at people in different fields, you will find the mind-set is the main difference between those who reach the pinnacle of their chosen career and those who remain mediocre. Be it business, science, technology, sports, or any other creative pursuit, people who train their minds for success are the ones who win the race. In intraday trading also, hundreds and thousands of day traders use the same methods of technical analysis, however, only a few of them succeed in making profitable trade and others go home with losses. It is the trading psychology that makes the difference between successful traders and those who failed.

Every trader, who tries to learn day trading, knows that there are certain rules to be followed and still the majority of them fail to do so find; therefore, if you want to succeed in day trading, you must pay attention to how you react to markets. Stock trading is nothing but watching the price rise and fall and trading off with the trend. But still, traders fail to follow this simple method of trading. Day trading happens 90% in the mind of a day trader, and only 10% in what happens in markets. A day trader takes a decision based on what he or she thinks is going to happen in stock markets, and not on what is happening. This is the biggest mistake of day traders do and the reason is their emotions.

To overcome this psychological hurdle, day traders must learn how to manage their trades without emotions. They can do so only with the help of technology and self-discipline. If they do not have self-control or do not follow a disciplined trading plan, they cannot make profits in stock markets.

CHAPTER 29:

# Tips for Market Investing

## Maximizing Your Investments

There are several ways that investors may maximize their investments. Of course, practicing proper trading techniques will help investors to earn greater returns on their investments. However, there are several other ways in which investors may maximize their investments and improve the returns on those investments. They may decrease investment costs, increase diversification, rebalance, and practice other techniques to improve their investments. It is important to learn about all the possible ways to maximize one's investments because you don't know what you don't know. Every bit counts. Just saving a bit here and there will quickly add up and maximize the investments.

Investors may maximize their investments by decreasing the cost of investing. There are several ways that investing may cost money, and that money is coming directly out of the investment. Investors may switch from hiring a financial advisor to doing the investing themselves, cutting the costs of commission. Investors commonly forget about transaction costs. There is typically a flat fee for buying stock through a broker. Instead of making many small purchases, investors may save up and only buy stocks in certain increments (for example, perhaps the investor won't buy more stocks until they have saved $1000). By doing this, a much smaller percentage of the investment is being cut out and used to cover those fees. This may require more patience, but that money will add up. Lowering one's expenses will increase their return. Instead of being spent, that money may be growing and earning a return on it. Because of compound interest, this money will earn money on itself and multiply over a period of years. This is why it's crucial to save every bit possible.

Investors must also really pay attention to their portfolios. Diversification is crucial, and it can save the investor from losing all of their investment. Markets typically fall much more quickly than markets rise. This means that the investor must prepare for such occurrences. It is important to regularly rebalance one's portfolio to ensure that it is positioned correctly for the

investor to make the largest possible gains.

Investors must also truly pay attention to what they want. Maximizing one's investments will depend on the person and what their goals are. Although it is wise to listen to the advice of experts and see what other ways that one may invest, it is crucial to follow the path that is best for the goals and preferences of the individual. This is why a plan is necessary and should be followed. Investors must not stop investing. This is another way to take advantage of compound interest. The investor's portfolio should never stop growing. This growth should be due to both growths in the investment and regular contributions by the investor themselves. Despite the great returns that may be experienced in a bull market, contributions are still necessary. Bear markets should also not discourage investors from continuing to invest; this can be a great time to get a good deal on a stock!

## Retirement Plans

There are several savings plans that investors can get involved with. These can help to provide the investor with additional benefits that wouldn't be available to them otherwise.

One of these plans is a 401(k). This is a retirement savings plan that will be sponsored by an employer. This will allow the individual to invest their money before taxes so that they can save and invest some of their paychecks. The investor is not required to pay taxes until they withdraw this money from their account. Investors may control how to invest their money. It is common to have mutual funds that contain stocks, bonds, and money market investments.

However, there are also target-date funds, which are stocks and bonds that will decrease in risk as the investor nears their retirement age. Unlike individual investing, however, this plan may not offer its users complete freedom. For instance, most employees must work for a company for a certain period of time before gaining access to their payments.

Employees may even have to work for the company for a certain period of time before being able to enroll in a 401(k) at all. There are typical costs for withdrawing from these accounts before hitting retirement age as well. There are also contribution limits for each year. Investing for oneself, however, offers more freedom, and there are no limits on investing. For those working

for an employer, however, this may be a good solution to investing using the paycheck given. It is a way to utilize the ability not to be taxed on one's investments from their paycheck. Employees may also enroll in Roth 401(k)s, which are not taxed for withdrawals. The better choice will depend on both the employee and the employer, as the plans are taxed differently.

403(b) plans are similar to 401(k)s, yet there are some slight differences. Both offer matching of the investments. For instance, for every dollar the employee contributes, the employer may contribute $0.50. This can prove to be greatly helpful to investors. The major difference between these are the employees that may enroll in these plans. Those in public schools, government jobs, nonprofits, and more may register for this plan. They are not for private-sector workers. Besides this, the plans are identical in their purposes. A 403(b) plan, however, may allow for faster vesting of funds and additional contributions, although the investment options may be less plentiful.

## Direct Stock Purchase Plans

Direct stock purchase plans allow investors to directly purchase stock from the company without the use of a broker. These plans may be available directly to retail investors, yet some companies will use third-party administrators to handle the transactions. They will typically have lower fees and the potential for buying shares at a discounted price. This may not be an option for all companies. These plans may also come with restrictions on when the investor may purchase shares. This plan may appeal to long-term investors that lack the money for an initial investment otherwise.

The investor may choose to sign up once for this plan or they may sign up to make automatic and periodic investments through a transfer agent. This agent will maintain balances and record transactions. To keep costs low, transfer agents will typically carry out bulk transactions for the company each time period that they choose. Direct stock purchase plans are an alternative to using online brokerages, and they will typically cost less. Instead of paying higher transaction fees, the investor may pay a small purchase processing fee for each share that they purchase. These are usually quite a bit smaller than the transaction fees that investors must pay a brokerage. This means that the investor will have more money that they will be able to invest in. Instead of that money going to the brokerage, that money may be invested and generate

a return for the investor. This can prove to be a wise move, especially for those wishing to buy a lesser amount of stocks. For those with greater funds for trading stocks, an online brokerage may prove more beneficial for the individual.

Direct stock purchase plans aren't for everyone. They will typically require investors to make a certain monthly commitment (i.e., $100) to investing. On the other hand, investors may buy stocks from a brokerage one time and never buy it again. Investors will also have to pay the market price for their stocks instead of being able to time it themselves. It may also be less convenient to create another account. However, once started, this will be an automatic investment and won't cost as much as it would purchase stocks through a broker.

This plan works by the investor making monthly deposits and those deposits being put towards purchasing shares of the company's stock. New shares (or portions of shares) will be purchased each month based on the amount of money available from deposits and dividends. This is a simple way to acquire shares of a company's stock slowly. This is also inexpensive, as these plans typically have either low costs or no costs at all. They also have low minimum deposits, usually ranging from about $100 to $500, although this may vary. This is a great plan for those who lack the financial power to invest otherwise. A common way that these purchase plans are carried out is by combining them with dividend reinvestment plans. These may be combined with the direct stock purchase plans to maximize the amount that the investor is investing in.

## Dividend Reinvestment Plans

Dividend reinvestment plans allow investors to, as the name suggests, reinvest their dividends. These are typically free to sign up for and quite easy to get started in. Investors must simply check a box or click a few buttons to sign up, and the dividends that they earn will go towards reinvesting into shares of stocks. Perhaps the investor gets a dividend for stock x. If they have signed up for DRIP (Dividend Reinvestment Plan), that dividend will go towards shares (or portions of shares) of purchasing more of stock x. This is a great way to manage one's investments automatically. On the dividend payment date, the investor's dividend will go towards reinvesting in that stock.

There are ways to sign up for this through the brokerage that one trades through or through an investment company. Instead of taking out these dividends and spending them, they may be used for greater benefits to the investor. This money can help the investor to make more money. Instead of being received as a check or deposited into the investor's bank, this money may be redeposited into more stocks for the investor. The investor should keep in mind, however, that these shares will be bought at market price and will typically be bought directly from the company, which is why this is free of transaction costs. These shares will also not be marketable through stock exchanges; they must be redeemed through the company directly.

There may be some limitations to this. Although these may be commission-free for the investor and may even have discounted share prices, DRIPs may have minimum dollar amounts that must be invested. There may be a minimum purchase amount for this. This is a great way for investors to take advantage of compound interest, as they are adding the extra amount that they may not have invested otherwise. However, the dividends may still be taxable, and the shares will be illiquid. The investor, once they have signed up, will not be able to regulate how much is and is not reinvested from these dividends. It is also a great way for investors to increase the number of shares of stock that they own without paying a commission for these shares. This is a more cost-effective approach than buying stock traditionally.

CHAPTER 30:

# Understanding Diversification

## What Is Diversification?

The term diversification in the world of finance refers to a growth strategy. This strategy makes full use of available opportunities in the market and allocating investment risk across various asset classes.

It is accurate to say that diversification is also a risk management approach to investing. Diversification makes use of a large variety of options in an investment portfolio. The reasoning that supports this approach claims that a portfolio that consists of different asset classes will basically result in higher returns while lowering risks associated with a single asset class.

Diversification focuses on asset allocation. It consists of a plan that endeavors to allocate funds or assets appropriately across a variety of investments. When an investor diversifies his or her portfolio, then there is some level of risk that has to be accepted. However, it is also advisable to devise an exit strategy so that the investor is able to let go of the asset and recoup their funds. This becomes necessary when a specific asset class is not yielding any worthwhile returns compared to others.

If an investor is able to create an aptly diversified portfolio, their investment will be adequately covered. An adequately diversified portfolio also allows room for growth. Appropriate asset allocation is highly recommended as it allows investors a chance to leverage risk and manage any possible portfolio volatility because different assets have varying reactions to adverse market conditions.

## Investor Opinions on Diversifications

Different investors have varying opinions regarding the type of investment scenarios they consider to be ideal. Numerous investors believe that a properly diversified portfolio will likely bring in a double-digit return despite prevailing market conditions. They also agree that in the worst case situation will be simply a general decrease in the value of the different assets. Yet with all this information out there, very few investors are actually able to achieve

portfolio diversification.

So why are investors unable to simply diversify their portfolios appropriately? The answers are varied and diverse. The challenges encountered by investors in diversification include weighting imbalance, hidden correlation, underlying devaluation, and false returns among others. While these challenges sound rather technical, they can easily be solved. The solution is also rather simple. By hacking these challenges, an investor will then be able to benefit from an aptly diversified platform.

## The Process of Asset Class Allocation

There are different ways of allocating investments to assets. According to studies, most investors, including professional investors, portfolio managers, and seasoned traders actually rarely beat the indexes within their preferred asset class. It is also important to note that there is a visible correlation between the performance of an underlying asset class and the returns that an investor receives. In general, professional investors tend to perform more or less the same as an index within the same class asset.

Investment returns from a diversified portfolio can generally be expected to imitate the related asset class closely. Therefore, asset class choice is considered an extremely crucial aspect of an investment. In fact, it is the single more crucial aspect for the success of a particular asset class. Other factors such as individual asset selection and market timing only contribute about 6% of the variance in investment outcomes.

## Wide Diversifications between Various Asset Classes

Diversification to numerous investors simply implies spreading their funds through a wide variety of stocks in different sectors such as health care, financial, energy, as well as medium caps, small, and large-cap companies. This is the opinion of your average investor. However, a closer look at this approach reveals that investors are simply putting their money in different sectors of stocks class. These asset classes can very easily fall and rise when the markets do.

A reliably diversified portfolio is one where the investor or even the manager is watchful and alert because of the hidden correlation that exists between different asset classes. This correlation can easily change with time and there are several reasons for this. One reason is international markets. Many

investors often choose to diversify their portfolios with international stocks. However, there is also a noticeable correlation across the different global financial markets. This correlation is clearly visible not just across European markets but also emerging markets from around the world. There is also a clear correlation between equities and fixed income markets which are generally the hallmarks of diversification.

This correlation is actually a challenge and is probably a result of the relationship between structured financing and investment banking. Another factor that contributes to this correlation is the rapid growth and popularity of hedge funds. Take the case where a large international organization such as a hedge fund suffers losses in a particular asset class.

Should this happen, then the firm may have to dispose of some assets across the different asset classes. This will have a multiplier effect as numerous other investments and other investors will, therefore, be affected even though they had diversified their portfolios appropriately. This is a challenge that affects numerous investors who are probably unaware of its existence. They are also probably unaware of how it should be rectified or avoided.

**Realignment of Asset Classes**

One of the best approaches to solving the correlation challenge is to focus on class realignment. Basically, asset allocation should not be considered as a static process. Asset class imbalance is a phenomenon that occurs when the securities markets develop and different asset classes exhibit varied performance.

After a while, investors should assess their investments then diversify out of underperforming assets and instead shift this investment to other asset classes that are performing well and are profitable in the long term. Even then, it is advisable to be vigilant so that no one single asset class is over-weighted as other standard risks are still inherent. Also, a prolonged bullish market can result in overweighting one of the different asset classes which could be ready for a correction. Following are a couple of approaches that an investor can focus on.

**Diversification and the Relative Value**

Investors sometimes find asset returns to be misleading including veteran investors. As such, it is advisable to interpret asset returns in relation to the

specific asset class performance. The interpretation should also take into consideration the risks that this asset class is exposed to and even the underlying currency.

When diversifying investments, it is important to think about diversifying into asset classes that come with different risk profiles. These should also be held in a variety of currencies. You should not expect to enjoy the same outcomes when investing in government bonds and technology stocks. However, it is recommended to endeavor to understand how each suits the larger investment objective.

By using such an approach, it will be possible to benefit more from a small gain from an asset within a market where the currency is increasing in value. This is as compared to a large gain from an asset within a market where the currency is in decline. As such, huge gains can translate into losses when the gains are reverted back to the stronger currency. This is the reason why it is advisable to ensure that proper research and evaluation of different asset classes are conducted.

**Currency Considerations**

Currency considerations are crucial when selecting asset classes to diversify in. take the Swiss franc for instance. It is one of the world's most stable currencies and has been that way since the 1940s. Because of this reason, this particular currency can be safely and reliably used to measure the performance of other currencies.

However, private investors sometimes take too long choosing and trading stocks. Such activities are both overwhelming and time-consuming. This is why, in such instances, it is advisable to approach this differently and focus more on the asset class. With this kind of approach, it is possible to be even more profitable. Proper asset allocation is crucial to successful investing. It enables investors to mitigate any investment risks as well as portfolio volatility. The reason is that different asset classes have different reactions to all the different market conditions.

Constructing a well-thought out and aptly diversified portfolio, it is possible to have a stable and profitable portfolio that even outperforms the index of assets. Investors also have the opportunity to leverage against any potential risks because of different reactions by the different market conditions.

**Example:**

An investor has a total of $100,000 to invest. The best approach is to put the funds in a diversified portfolio but the challenge is properly or adequately balancing the portfolio. The first step is to check out market conditions and then conduct an assessment of possible returns versus any likely risks. As such, the investor can choose to invest in very secure investments that are likely to produce long-term income.

Such an investment can include between 10 and 12 stocks that are highly diversified. These are generally stocks from different sectors, industries, and countries. This kind of diversification helps to leverage against any possible risks and also ensures the portfolio is thoroughly mixed.

**CHAPTER 31:**

# Options Day Trading Rules for Success

There is more to options day trading to just having a style or a strategy. If that was all it took, then you could just adopt those that are proven to work and just stick with them. Yes, options day trading styles and strategy are important but they are not the end-all-be-all of this career.

The winning factor is the options day trader himself or herself. You are the factor that determines whether or not you will win or lose in this career. Only taking the time to develop your expertise, seeking guidance when necessary and being totally dedicated allows a person to move from a novice options day trader to an experienced one that is successful and hitting his or her target goals.

To develop into the options day trader you want to be, being disciplined is necessary. There are options day trading rules that can help you develop that necessary discipline. You will make mistakes. Every beginner in any niche does and even experienced options day traders are human and thus, have bad days too.

Knowing common mistakes helps you avoid many of these mistakes and takes away much of the guesswork. Having rules to abide by helps you avoid these mistakes as well.

Below, I have listed 11 rules that every options day trader must know. Following them is entirely up to you but know that they are proven to help beginner options day trader turn into winning options day traders.

## Rule for Success #1 – Have Realistic Expectations

It is sad to say that many people who enter the options trading industry are doing so to make quick money. An option trading is not a get-rich-quick scheme. It is a reputable career that has made many people rich but that is only because these people have put in the time, effort, study and dedication to learning the craft and mastering it. Mastery does not happen overnight and beginner options day traders need to be prepared for that learning curve and to have the fortitude to stick with day trading options even when it becomes

tough.

Losses are also part of the game. No trading style or strategy will guarantee gains all the time. In fact, the best options traders have a winning percentage of about 80% and a losing average of approximately 20%. That is why an options day trader needs to be a good money manager and a good risk manager. Be prepared for eventual losses and be prepared to minimize those losses.

## Rule for Success #2 – Start Small to Grow a Big Portfolio

Caution is the name of the game when you just get started with day trading options. Remember that you are still learning options trading and developing an understanding of the financial market. Do not jump the gun even if you are eager. After you have practiced paper trading, start with smaller options positions and steadily grow your standing as you get a lay of the options day trading land. This strategy allows you to keep your losses to a minimum and to develop a systematic way of entering positions.

## Rule for Success #3 – Know Your Limits

You may be tempted to trade as much as possible to develop a winning monthly average but that strategy will have the opposite effect and land you with a losing average. Remember that every options trader needs careful consideration before that contract is set up. Never overtrade and tie up your investment fund.

## Rule for Success #4 – Be Mentally, Physically and Emotionally Prepared Every Day

This is a mentally, physically and emotionally tasking career, and you need to be able to meet the demands of this career. That means keeping your body, mind and heart in good health at all times. Ensure that you schedule time for self-care every day. That can be as simple as taking the time to read for recreation to having elaborate self-care routine carved out in the evenings.

Not keeping your mind, heart and head in optimum health means that they are more likely to fail you. Signs that you need to buckle up and care for yourself more diligently include being constantly tired, being short-tempered, feeling preoccupied, and being easily distracted.

To ensure you perform your best every day, here a few tasks that you need to

perform:

- Get the recommended amount of sleep daily. This is between 7 and 9 hours for an adult.
- Practice a balanced diet. The brain and body need adequate nutrition to work their best. Include fruits, complex carbs and veggies in this diet and reduce the consumption of processed foods.
- Eat breakfast lunch and dinner every day. Fuel your mind and body with the main meals. Eating a healthy breakfast is especially important because it helps set the tone for the rest of the day.
- Exercise regularly. Being inactive increases your risk of developing chronic diseases like heart disease, certain cancers and other terrible health consequences. Adding just a few minutes of exercise to your daily routine not only reduces those risks but also allows your brain to function better, which is a huge advantage for an options day trader.
- Drink alcohol in moderation or not at all.
- Stop smoking.
- Reduce stress contributors in your environment.

## Rule for Success #5 – Do Your Homework Daily

Get up early and study the financial environment before the market opens and look at the news. This allows you to develop a daily options trading plan. The process of analyzing the financial climate before the market opens is called pre-market preparation. It is a necessary task that needs to be performed every day to asset competition and to align your overall strategy with the short-term conditions of that day.

An easy way to do this is to develop a pre-market checklist. An example of a pre-market checklist includes but is not limited to:

- Checking the individual markets that you frequently trade options in or plan to trade options in to evaluate support and resistance.
- Checking the news to assess whether events that could affect the market developed overnight.

- Assessing what other options traders are doing to determined volume and competition.
- Determining what safe exits for losing positions are.
- Considering the seasonality of certain markets are some as affected by the day of the week, the month of the year, etc.

## Rule for Success #6 – Analyze Your Daily Performance

To determine if the options day trading style and strategies that you have adopted are working for you, you need to track your performance. At the most basic, this needs to be done on a daily basis by virtue of the fact that you are trading options daily. This will allow you to notice patterns in your profit and loss. This can lead to you determining the why and how of these gains and losses. These determinations lead to fine tuning your daily processes for maximum returns. These daily performance assessments allow you also to make determinations on the long-term activity of your options day trading career.

## Rule for Success #7 – Do Not Be Greedy

If you are fortunate enough to make a 100% return on your investment, do not be greedy and try to reap more benefit from the position. You might have the position turn on you and you can lose everything. When and if such a rare circumstance happens to you, sell your position and take the profits.

## Rule for Success #8 – Pay Attention to Volatility

Volatility speaks to how likely a price change will occur over a specific amount of time on the financial market. Volatility can work for an options day trader or against the options day trader. It all depends on what the options day trader is trying to accomplish and what his or her current position is.

There are many external factors that affect volatility and such factors include the economic climate, global events and news reports. Strangles and straddles strategies are great for use in volatile markets.

There are different types of volatility and they include:

- Price volatility, which describes how the price of an asset increases or decreases based on the supply and demand of that asset.

- Historical volatility, which is a measure of how an asset has performed over the last 12 months.
- Implied volatility, which is a measure of how an asset will perform in the future.

## Rule for Success #9 – Use the Greeks

Greeks are a collection of measures that provide a gage of an option's price sensitivity in relation to other factors. Each Greek is represented by a letter from the Greek alphabet. These Greeks use complex formulas to be determined but they are the system that option pricing is based on. Even though these calculations can be complex, they can be done quickly and efficiently so that options day traders can use them as a method of advancing their trades for the most profitable position.

## Rule for Success #10 – Be Flexible

Many options day traders find it difficult to try trading styles and strategies that they are not familiar with. While the saying of, "Do not fix it if it is not broken," is quite true, you will never become more effective and efficient in this career if you do not step out of your comfort zone at least once in a while. Yes, stick with want work but allow room for the consideration that there may be better alternatives.

## Rule for Success #11 – Have an Accountability Partner or Mentorship

Day trading options can be a rather solitary career. That means it becomes easy to sleep in if the urge strikes or just not put in a day of work. While there is nothing wrong with doing that when you have established a solid career in day trading options, this is a slippery slope that can become a harmful habit to your career. Having an accountability partner is an easy way to keep you on track with your trading plan and goals. It keeps you consistent with your actions. This can be a fellow trader, your spouse or romantic partners, a friend or family member.

Finding a mentor is also a great way to incorporate accountability as well as learning in your career.

# Conclusion

At every level of options trading, there are mistakes that people do over and over again. However, these mistakes must be avoided in order to realize a profit from the trade.

Just like in stocks trading, you must be able to control your emotions when trading options. Once you have a trading plan, stick to it and do not be quick to exit, no matter how bad things become. To help you achieve this, define your upside and downside exit points in good time. You also need to define the timeframe for your exit, although the trade gives you an opportunity to get out of a call or put option before it expires.

A trade can move against you and make you lose money. Most traders have been there. Sometimes you may put your capital on options, and the outcome is not exactly what you expected. In such a scenario, most traders tend to double up their options strategy to see if they can recover the loss. Doubling may lower your potential for loss in a given trade, but it is surrounded by a lot of risks.

In most cases, it does not work. Most traders who try out this technique end up losing a lot more. Once a loss occurs, it is wise to close the trade and start a different trade to see if you can recover your money.

The stock market is often more liquid than the options market because stock traders focus on one commodity, while options traders often have several contracts to select from. An option quote always has the bid price and the asking price indicated on it. These prices do not indicate the actual value of the option. Illiquidity in options trading may result from illiquid stock. It is, therefore important to trade options that are derived from a highly liquid stock.

Always ensure that you buy back your short strategies in good time. It is important not to assume that a trade will go your way the entire time. This is because trade can change performance in a matter of seconds. In case a short option gets out of the money, and you are able to redeem it then do so before you lose more money in the transaction. One rule of thumb that most traders use is that if you are able to keep 80% of your gain from a sale, then you

should buy it back as soon as you can.

Do not allow yourself to learn the lessons the hard way. It is not always wise to attempt a trade while you already know the kind of risks involved. Focus on your trading plan and commit to these tips to succeed in your trade.

If you ever hope to make money trading options successfully, then there are a number of skills that you are going to want to hone as much as possible, starting with the ability to trade like a robot. When you have a trade on the line that could make or break you it is only natural to be scared or anxious, but those emotions are only going to cloud your judgment if left unchecked which is why it so important to box them up and bury them in the ground when you are trading so you can only focus on the facts in front of you. Fail to do so, and you will watch in fear as your sure thing turns into a huge loss as opposed to jumping into action right away in order to salvage as much profit as possible.

Being a successful trader means being able to react at a moment's notice, without hesitation, full stop. The only way you can ever ensure that this is going to be the case is if you can put aside the emotional aspect of what is occurring and focus on the numbers as if it was some else's money. A good way to ensure that this is possible is to make it a point of never putting more on the line then you can afford to lose.

The first emotion you are going to need to learn to banish is anger as it can cloud your judgment without you even realizing it. It is perfectly natural to feel angry when a trade that was going your way suddenly ends up costing your money, that doesn't mean that it is ever the right choice to act on that anger as no good will come of it whatever you might believe at the moment.

Don't always follow the crowd. While doing what the major players in the market do can be a reliable strategy, following the crowd at all times is not advisable in the long-term. Successful traders do their own research and trust themselves enough to act on the results they determine, even if they mean making trades that might seem unpopular at the moment. When it comes to seeking substantial payouts trading against the market is going to be the most likely, if not the most reliable, option. This is only the case if you do so for the right reasons, however, as being contrarian just for the fun of it isn't going to get you any either.

Most of the market movement that takes place each day is caused by sheep

who simply follow the crowd with no real idea as to why they are doing what they are doing. Successful traders don’t fall into this mindset, however, instead of being a sheep you should strive to be a wolf which means improving your intuition through a combination of practice and diligent study. Eventually, all this hard work will pay off and you will start to become more confident in yourself which will then make it even easier to trust in yourself, and not the sheep, moving forward. It is natural to feel a tinge of fear when you get a signal that your trades are down or if the market as a whole is experiencing a dramatic upheaval. If you don’t control this instinct, however, then it can be easy to overreact and find yourself getting rid of your holdings or turtling up and not taking any risks until the perceived crisis has passed. While this will likely lead to fewer losses, it will also negatively affect the potential for additional gains.

In order to bypass this natural reaction, it is important to be aware of what fear really is which is simply a natural reaction to stimuli that can be perceived as a threat. If you find yourself becoming afraid during stressful stock-related scenarios you may find it helpful put the situation into a larger context or to take a moment to consider what it is that you are really afraid of. Either of these exercises will allow you to put the fear on hold and think rationally about the situation which will make it much easier to ignore entirely.

# OPTIONS TRADING

A Beginners' Crash Course Regarding Strategies, Day Trade for A Living, Swing, And Advanced Trading Options

**MARK REESE**

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# Introduction

When you hear about investment, what click right away for most people are stocks and bonds. The word options trading escapes unnoticed.

An option is a contract allowing the bearer but not forcing them to either put or call the stated asset at a named price within a defined time. A call option allows the bearer to buy stock while a put option allows the bearer to sell the stock.

Investors' portfolios usually made up of several asset classes. It could be stocks, currencies, bonds, exchange-traded fund (ETF) or cash equivalents. Another type of asset class is options, and when used appropriately, they offer more advantages than stocks and ETFs combined.

Options can positively affect an individual`s portfolio through added income, protection and leverage depending on the situation. Another use is that they help in speculation purposes.

Options are a member of a group of securities called derivatives. From the perspective, the price of options is dependent on the going rate of other assets. Derivatives may include things like; futures, forwards, mortgage-backed securities, calls, and swaps.

Being an asset option can be purchased like any other asset. An investor needs a brokerage account to invest in the stocks they hope will turn their initial investment into a lifetime fortune.

It is essential to find a broker that gives you access to all the kinds of different investments that are important to you. The key features to look in a good broker include;

- Low commissions
- Good research
- Great customer report

Usually options trade in share blocks of 100, so a $1 option costs$100, commissions included. Also, options may agree on in any kind of named assets such as bonds, currencies or even commodities.

The upper hand in buying options is that an investor can take part in predicting the price moves of stock, without having liquid cash. An option trading is an almost high-risk area of the investment world.

When a broker is involved, you should notify that options never miss risks and are not for just anyone to venture in. An option trading is unpredictable and has a high-risk percentage of loss. The investor must be made aware of this before jumping into it.

Stocks and bonds have one thing in common with options, and that is risks. Options trading take more effort to do well than stock trading, but it pays at the end of the game.

The financial market has lots of ways of making money. Options trading happens to be one of these methods. Like any money-making scheme, there is always a need for a prior understanding of the trade spotlight dynamics. Stock markets have their ways and regulations. To fit in, you have to align with the trade that favors you and feels right. The main types of options trade are calls and puts. They don’t stop there; they can also classy based on the time a contract can put to work, expiration date, the security they connected to and lastly the method of trade.

CHAPTER 1:

# How to Grow Your Money the Smart and Easy Way

The protection is essential in any investment, although some traders are more risk-tolerant than others and are, for that reason, more inclined to lose some of their fundamental in return for the hazard of producing a higher profit.

The income from funding is called a return. The return may consist of achieving or loss from the sale of property, depreciation, or investment income such as dividends, interest, condominium earnings, etc., or an aggregate of capital reap and income. The return may additionally also include currency beneficial properties or losses due to adjustments in foreign money change rates.

## Reasons to Make Investments

The reason for investments can also vary; however, they want to be investments, not saving money and retaining the identical in your pocket or in some hidden pockets in your wardrobe. Keeping money hidden is virtually lifeless money that has no value. Investments of money in may additionally be a stock market, or insurances or mutual money is a great deal higher as your cash fetches you returns and it rotates in the market alternatively of being stagnant in your pockets.

- Hit the Inflation Hard
- Pension and Retirement Savings
- Let Your Money Work
- Meet Your Financial Goals
- Increase Your Wealth

### Types of Investments

There are four foremost funding types or asset classes that you can choose

from.

- Cash
- Defensive Investments
- Fixed Interest
- Growth Investments
- Property
- Shares

## What Is Passive Income?

Passive income is the money that regularly generated, which requires minimal effort right on the side of the recipient for earning it and then maintaining the same. Gains on interests, stocks, lottery winnings, commodities, and capital are often the earning types that come in mind.

### Active Trading Vs. Passive Trading

Various people often ask of stock trading as being a source of passive income or not. But, the answer to this question will rely on your form of approach. The dynamic nature of traders will be investing a significant amount of effort and time in turning a profit. Well, their activity of the trade will take as the primary form of focus.

In the case of passive income, the earnings derived from a limited partnership, rental property, or by using other enterprises, in short, anything in which any individual is not involved actively. Passive income is generally taxable. So, if you are looking out for generating passive income by using options, you are required to hand over the capital to a broker whom you trust, any automated system, or by investing your money through copy trading.

### Passive Income Pros & Cons

Right before we start with the various techniques of earning passive income by using options, it is essential to first learn about the benefits of passive income along with the drawbacks of the same.

A distinct advantage that is related to passive income is the limited amount of time that you will have to commit. But, this also indicates the extreme

pressure on the decisions of investments that you are going to make. Also, passive trading might sometimes end up in a prolonged profit stream when you compare it with active trading. There are also certain dangers that you are most likely to oversee while monitoring your income. Ultimately, this might result in losing an enormous amount of potential profit.

## Techniques for Generating Passive Income

There are various ways in which passive income can make.

### Automation

To make the whole game of passive income a lot easier, some people often opt for automation. When used properly, the automated systems can make you capable of generating substantial nature of profits. Mainly because there is only a specific trade number that one can make in a day. Whereas a unique algorithm can quickly enter and exit the positions as soon as the pre-determined criteria have met.

They will also permit you to trade in several markets at one time. Right after you have successfully programmed your criteria, passive income can also generate while you are sleeping. Some of you might doubt the capabilities and efficiency of this system.

### Software

Right before you start having passive income by using automated trading, you are required to look out for the perfect software. Try doing your research and never forget to check the assessments first before you start investing. You can start by creating a small checklist for your parameters of trading. You can easily consider these:

- When to enter positions and when to exit them
- Size of the position
- Trading timeframe
- Stop losses and targets

### Back Testing

Before starting any automated system for generating passive income from options, you will need to backtest the strategy first. It will permit you to test

the entire system right before you risk in your capital. You have to run the software that you chose right against any historical price data for getting a gauge of how efficiently it performs. You can quickly identify the issues, if there are any, and fix them before investing.

## Copy Trading

Another great way of developing passive income is by the method of copy trading. You need to select a trader, and a program will then be mimicking the buying and selling of the trader by using your capital. But, it might happen that the traders will take a minimal percentage of the profit that you make. But, it also comes along with certain drawbacks.

- **Risking your capital**

You need to be prepared always as because of the market volatility, you might also lose the entire money that you have invested. If you are risk-averse and if you cannot see yourself with huge losses, it is better not to opt for this option.

- **Choosing a trader**

Picking a trader might turn out to be a challenge. Any aggressive nature of options trader can clear you out within several days. So, it is always better to consider the instrument of approach and choice that they use. You are also required to check the updated history of the trade of the trader. All you are looking out for is a consistent and steady form of results.

- **Not keeping up with the trades proportionally**

There are specific sites that might not permit you to trade a proportional way. But, for good, the traders most of the time invest only in particular quantities. So, you need to ensure that you only focus on copying the trader.

CHAPTER 2:

# How to Create a Secure Financial Future for You and Your Family

When investing in the stock market, you have to set your investment goals, deciding whether you want to invest or be a trader, and taking stock of your current financial health.

## Setting Up an Investing Plan

The first step when beginning your self-directed investment program is to set aside some money to use for your initial stock purchases and to sign up with the brokerage of your choice. Keep in mind that you should not try to invest every bit of cash you have at once.

Once you have gotten set up so that you can begin buying and selling stocks, you need to set up an investing plan. The first thing that does along with this, is choosing a way that you plan on investing. There are many different ways that you can trade and invest, and they aren't necessarily exclusive. These can include a straightforward long-term investment plan that does not include dividend stocks. Some readers will prefer to invest strictly in dividend stocks because they have a goal of earning income from their investments. Others are interested in trading.

So, what should your investment plan include? Start by determining the end goal. Is your goal to have a million dollars at retirement or to be able to retire by age 55? Or maybe you are already 55 and have no retirement savings, and so you will have a different goal — aggressive investing in growth stocks to build up your assets to "catch up rapidly."

Regardless of what your goal is, you should clearly state the intention and have it clearly in your mind at all times. You need to know the end state of your investment program to take steps to reach it. For example, if you are 45 and want to have a million-dollar portfolio by age 70, then you need to figure out exactly how much you need to invest to reach the goal in the time allotted, and then go from there.

As a part of developing a financial plan, you should start a journal where you

can keep your goals and other information recorded. That way, you can refer back to your goals and plans and update them as necessary, as well as evaluate your performance as time goes on. Keeping a written journal that you actively use in your pursuit of your goals is also a way that you can hold yourself accountable.

Keep in mind that you don't have to set permanent goals. You can change your goals as circumstances dictate, but recommended that you only do this once a year. You need to stick to the strict pursuit of your goal for at least 12 months to fairly and accurately evaluate your progress.

Once you have an end goal in mind, you also have to determine how often you are going to invest. At a minimum, you should be buying shares of stock at least once per month. If you can do it twice a month or even once a week, that is even better, but not everyone is going to have the ability to do it more than once a month. Some people might also want to buy shares daily. Set up a time frame that works best for you.

In addition to determining how often you are going to buy shares of stock; you also have to decide how much you can invest. Of course, generally speaking, people should invest as much money as they can. But you also have to balance that against the reality of your day to day expenses and other needs that will come up.

At this point, we need to say a word about savings, emergency expenses, and debts. If you are carrying a large amount of debt (aside from a home mortgage), it's essential to get yourself out of debt. Any liability that you are taking in the form of personal loans, credit cards, car loans, student loans, and so forth is terrible for your financial health. Many loans may carry interest rates that will outweigh any gains you are making in the stock market, so while you are holding these debts, even if you are investing in stocks, your net worth could be decreasing. If you need to get a second job or create a small business to generate more income to take care of it, then you should seriously look into doing so.

Second, everyone should have some emergency cash on hand. The amount you need varies, but you should at a minimum of $1,000 on the side to handle emergencies like car repairs, tire blowouts, roof leaks, broken water heaters, pet emergencies and so on. Make sure you have some emergency fund on hand before you start putting all of your available cash into the stock market.

Many financial advisors say you should have 3-6 months of expense covered, but of course, that is a lot of money and so if you don't have any money saved up, you are going to have to work on this over some time. For now, focus on getting a cash fund of $1,000, you only touch when you need the money. You should also avoid using credit cards to pay for emergency circumstances once you've built up a reserve.

## Get a Clear Picture of Your Financial Health

Before you dive into investing, make sure that you have a clear picture of your financial health. Start by listing all of the assets that you own, everything from cars, cash, retirement accounts, to computers and other items. When doing this, only include equity in these items. So, if you owe $4,000 on a car worth $17,000, then you have $13,000 in equity.

List your liabilities. You should list the total amount owed, the amount needed to pay off each item, and the monthly bill. When listing your debts also include the interest rates. Also, include any other debts like back taxes.

When you make a debt repayment plan, you should try to pay off debts that have the highest interest rates first. Payment on interest is the money going out the window. It enriches the creditor while keeping you from devoting cash toward paying off the debt.

## Investment Strategy

We need to have a clear understanding of why we would use investment strategies in the first place. The reasons include:

- **Spreading risk.** Remember that you should never bet your life's savings on one investment. Some investments are bound to fail, so one goal of an investment strategy is to spread the risk so that the inevitable failures don't destroy your entire investment portfolio.
- **Buying at the wrong time.** The last thing you want to do is be the person that is always buying at market peaks. That means you'd be buying high and then hoping the market will be rising even higher. Also, you'd be paying more for your shares than you need to pay.
- **Staying focused on your goal.** You want to ensure that at all times, your investment portfolio is helping you maintain and

reach your long-term goals.

## Invest Long Term

Long term investing is considered the best way to be involved in the stock market according to most financial advisors. There are many reasons for this. For one, long term investing is far more likely to provide gains in wealth over time. It is the only way that you can ensure that you have wealth to draw on for living expenses during retirement. Historical data indicates that over the long term, stocks from most established companies are going to appreciate. And over the long run, you will have many opportunities to adjust and move your money out of losing stocks and into winning stocks.

If you also invest in dividend stocks, long term investing with dividend reinvestment will also lead to the benefits you get from compound interest, which means that you will have your money working for you to grow even more money. Short term traders don't benefit from compound interest in any way.

Another advantage of long-term investing is that it's a low-key and low stress, not to mention something that isn't complicated. With long term investing, you pick out a set of dependable companies (and possibly some index funds) and buy shares at regular intervals. A long-term investor should not be concerned with the short-term fluctuations of the stock market, even recessions. The long term change volatility average and downturns overtaken by future economic growth. While traders are sweating bullets over short term fluctuations in the stock market, long term investing doesn't require you to get stressed out over daily or weekly ups and downs – the kind that always occurs.

While commissions can cut into the profits of traders who are buying and selling frequently, often making small per-share profits, commissions are not that important to long term investors. You aren't going to be making multiple trades in a day, and most long-term traders won't be making various trades over a week so that commissions will far less impact it on your bottom line. Also, over the long term, if you pay a $5-10 fee for a trade now, that small amount isn't going to matter compared to the appreciation the stock is likely to see over 5, 10, or more years.

A long-term investment strategy also removes the trader's way of trying to

get in and out of the market at the exact right moment to profit. It reduces stress, and it also significantly lowers risk. When you are trying to exactly time buying and selling of stocks, chances are you are going to have a lot of errors, and so you're going to lose money — or put another way it's a much higher risk.

Everyone has their preferences and level of risk they are willing to accept, and some people even find the pressure cooker of day trading, swing trading, and options trading exciting. Others prefer the comfort, stability, and likelihood for success that long term investing provides. So, this is something you will need to evaluate for yourself, and you will need to be sure to go into your investing or trading with open eyes so that you know what you are getting in.

## Trade

With this in mind, you might ask why people bother trading. They do so because they enjoy speculating, diving deeply into the financial markets and they have a goal of earning profits in the present day, rather than investing for the sake of building wealth over time. Trading is high-risk, but it can work for some people who have the skill and dedication to make it work.

**CHAPTER 3:**

# What Are Options?

An option is a financial contract called a derivative contract. It allows the owner of the agreement to have the right to buy or sell the securities based on an agreed-upon price by a specified period.

As the name suggests, there is no obligation in this type of transaction. The trader pays for the right or the option to buy or sell a purchase such as security, stock, index or ETF (exchange-traded fund) by a certain amount of time. An alternative is a contract.

The option derives its value based on the value of the underlying asset hence the term derivative contract. This contract states that the buyer agrees to purchase a specified asset within a certain amount of time at a prior agreed-upon price.

Derivative contracts often used for commodities like gold, oil, and currencies, which is usually in the form of US dollars. Another type of derivative based on the value of stocks and bonds. They can also found on interest rates such as the yield on a specified amount of time Treasury note, as a 10-year Treasury note.

In a derivative contract, the seller does not have to own the specified asset. All he or she has to do is have enough money to cover the price of the asset to fulfill the contract. The seller also has the option of giving the buyer another derivative contract to offset the asset's value.

An option contract usually contains the following specifications:

**Agreed-Upon Price**

Also known strike price. It does not change no matter how much time has passed, and it is so named because the trader strikes when the underlying value makes the desired income.

**Specified Time**

Also known as the expiration dates. This is the date at which the option (contract) expires. The trader can exercise the option at the strike price at any

time up until the expiry date reaches. In some parts of the world such as Europe, a trader can only exercise the right to the option at the strike price exactly on the expiry date. We will more largely focus on the American way of trading options, which allows for exercising right on.

**Rights Acquired with the Purchase of an Option**

They can be Call (right of purchase) and Put (right of sale).

## Options vs. Stocks

Trading options and trading stocks are different because stocks and options have different characteristics. Stocks represent shares of ownership in individual companies or opportunities. It allows the stock trader to bet in any direction that he or she feels the stock price headed.

Stocks are an excellent investment if you are thinking of long-term yields, such as for retirement and have the capital. They are very simplistic in the approach in that the trader buys the stock and wagers on the price that he or she thinks it will rise at a particular time in the future. The hope is that the price will increase in value, thus gaining the trader a substantial yield.

Stocks are an excellent option for those who want to invest without having to keep a steady eye on the growth of the investment.

The risk of investing in stocks is that the price of shares can plummet to zero at any moment. It means that the investor can lose his or her entire investment at the drop of a hat because stocks are very volatile from day to day. They are very reactive to world events such as wars, politics, scandal, epidemics, and natural disasters.

On the other hand, options are an excellent option for traders who would like flexibility with timing and risks. The trader is under no obligation and can see how the trade plays out over the time specified by the option contract. In that period, the price is locked, which is also a great appeal.

Trading options also require a lower investment compared to stocks typically.

Another excellent appeal for options reading is that the specified time is typically shorter than investing in stocks. I allow for regular buying and selling as options have different expiration dates. Expiration dates can range from just a few days to several years.

The drawback that makes some people hesitate in trading options is that it is more complicated than trading stocks. The trader needs to learn new jargon and vocabulary such as strike prices, calls and puts so that he can determine how he or she can set up effective options. Not only does the trader have to learn new terms, but he or she also has to develop new skillsets and the right mindset for options trading.

## Trading Options

There are two major types of options.

- **Call Option**

This type of option gives the trader the right to buy the asset on or before the expiration date. Also, simply labeled a call, this type of choice traded because the price of the underlying asset expected to rise within a specific timeframe. For the buyer of a call option, the profit lies in the price moving above the strike price. The trader can then sell the option to make a profit, which is the standard Call for most buyers or, choose the right to exercise the option on or before the expiration date.

The person who sells this type of option receives the premium from the trader to generate income. Therefore, the seller has a limited income while the buyer of such an option has unlimited potential for profit.

Stocks are a common asset in call option transactions.

There are 100 shares of stock up for sale. Each share priced at $100and. Therefore, a stock trader would pay $10,000 to buy these.

As an options trader, you can buy a call option that will give you the right to pay this $100 per share within a specified period of six months. The option would cost $5 per share, and so, the options trader would pay a total of $500. It is a substantially lower investment than outright buying the stock.

The trader had a good feeling that these stocks would increase in value though, and they do by the expiration date. They are now worth $150 per share.

If the trader had bought the stock outright, he or she would make a profit of $5,000 because the stocks are now worth $15,000. As a call option, the trader would make a profit following the following formula:

(Current Price of the Stock - Strike Price) X Number of Shares = Option Worth

Using our example, this translated into:

($15,000 - $10000) x 100 = $5000

To determine the profit, the options trader would make, you need to remove the cost of the option. In this example, this cost was $500, and thus, the options trader makes a profit of $4,500. While this profit is slightly lower than what the stock trader made, the investment and risk were also substantially lower than outright buying the stock.

The general terms that show whether the options trader made a profit are:

- In the money. Means the asset price is above the call strike price as so the options trader makes a profit on the transaction.
- Out of the capital. The price is below the call strike price and so the options trader makes a loss on the trade.
- At the money. The asset price and the strike price are the same, and so the options trader does not make a profit, but neither does he or she cause a loss on the transaction.

- **Put Option**

This type of option gives the trader the right to sell the specified asset at the predetermined price by the expiration date. The strike price also decided with this type of option. With a call option, the trader hopes that the cost of the asset increases. However, with the put option, the trader expects that the price of the asset goes down. Only if the price of the asset goes -down does the trader make a profit?

Here is how this works the trader pays for the option to sell the asset by a fixed time. If the price of the assets goes up, the trader has to sell the assets at a higher price if he or she exercises the right to the option. It is a bad deal because the gap between the strike price and the selling price has narrowed.

On the other hand, exercising the right to sell the asset when it has depreciated widens the gap between the strike price and the sale price.

Let us take a look at how this works with an example using stock.

The trader has a feeling that 100 shares of stock will decline value shortly.

These 100 shares of stock are worth $100 per share now ($10,000 total). The put options trader purchases the right to sell the stock at any time within the following six months. The option costs $1.50 per share, and so, the options trader pays $150.

Assuming that the options traders gut feeling pays off and the value of the stock goes down to $50 per share by the time that the expiration date arrives, this is highly profitable.

Exercising the right of the put option, the trader can sell the stock for the strike price of $100. The profit calculated with this formula:

Asset Value - Option Cost = Profit

Therefore, using our example, the profit that the trader would earn:

$10,000 - $150 = $9,850.

It is a much higher value than the $5,000 that would have earned if the trader did not exercise the put option.

The general terms that show whether the options trader made a profit are:

- In the money. The asset price is below the put strike price as so the options trader makes a profit on the transaction.
- Out of the capital. The price is above the put strike price, and so the options trader makes a loss on the trade.
- At the money. The asset price and the strike price are the same, and so the options trader does not make a profit, but neither does he or she cause a loss on the transaction.

**CHAPTER 4:**

# How the Options Work

Option operators must understand the complexity that surrounds them. The knowledge of the operation of the options allows them to make the right decisions and offers them more options when executing a transaction.

Indicators:

- The value of an option consists of several elements that go hand in hand with the "Greeks":
- The price of the guaranteed value
- Expiration
- Implied volatility
- The actual exercise price
- Dividends
- Interest rates

The "Greeks" provide valuable information on risk management and help rebalance the portfolios to achieve the desired exposure (e.g., delta coverage). Each Greek measures the reaction of the collections to small changes in an underlying factor, which allows the individual risks to examine:

- Delta measures the rate value of an option regarding changes in the price of the underlying asset.
- The gamma measures the rate change in the delta suffered by the amount of the underlying asset.
- Lambda or elasticity refers to the percentage change in the value of an option compared to the percentage change in the price of the underlying asset, which offers a method of calculating leverage, also known as "indebtedness."
- Theta calculates the sensitivity of the option value over time, a

factor known as "temporary wear."

- Vega measures the susceptibility of the option of volatility. Vega measures the value of the option based on the volatility of the underlying asset.
- Rho represents the sensitivity of the importance of an option against variations in the interest rate and measures the value of the option based on the risk-free interest rate.

Therefore, the Greeks are reasonably simple to determine if the Black Scholes model (considered the standard option valuation model) is used and is very useful for intraday and derivatives traders. Delta, Theta, and Vega are helpful tools to measure time, price, and volatility. The value of the option is directly affected by maturity and volatility if:

- For a long period before expiration, the value of the purchase and sale option tends to rise. The opposite situation would occur if, for a short period before expiry. The amount of purchase and sale options are prone to a fall.
- If the volatility increases, so will the amount of the purchase and sale options, while if the volatility decreases, the value of the purchase and sale options decreases.
- The price of the guaranteed value causes a different effect on the value of the purchase options than the sale options.
- Usually, as the cost of the securities increases, so do the current purchase options that correspond to it, increasing its value while the sale options lose value.
- If the price of the cost falls, the opposite happens, and the current purchase options usually experience a drop in value while the value of the sale options increases.

It happens when an operator acquires an option contract and pays an initial amount to the seller of the option contract. The option premium will vary depending on when it calculated and on which market options its acquisition was made.

What option has chosen, in-, at-, or out-of-the-money? An in-the-money

option will be sold for a higher premium since the contract is already profitable, and the buyer has direct access to the benefits obtained from the agreement. Instead, at- or out-of-the-money options can purchase for a lower premium.

## What Is the Value of the Contract Over Time?

Once an option contract expires, it loses its value. Therefore, it is logical that the longer the validity period, the higher the premium. It is because the deal has additional temporary costs and that more time is available in which the option can be profitable.

What level of volatility does the market have? The premium will be higher if the options market is more volatile as it increases the possibility of obtaining a more significant benefit from the option. The opposite principle applies to the lower volatility that implies a lower premium as the market is considered relatively “stable.” The volatility of the options market determined by using different price scales (the long-term, recent, and expected price scales are the required data) to a selection of price volatility models.

The sale and purchase options do not have equivalent values when they reach their mutual ITM, ATM, and OTM exercise price due to the direct and opposite effects caused by their oscillation in irregular distribution curves, which unbalances them.

Exercises - The number of activities and increments between the practices decided based on the change that applied to the product.

## Exercising an Option

If the buyer of an option exercises their right to buy the shares, we say that they are using their right. The seller of the option is then “assigned,” that is, they are under assignment to sell the shares.

For a put option, we say the buyer of the option is exercising their right if they sell the shares to the originator of the contract. Once again, the seller of the option would be assigned.

There are two styles of options. An American style option is one that can exercise on or before the expiration date of the option. A European style option is one that can only apply on the expiration date.

## The Main Reason People Write Options Contracts

You can enter into an options contract by logging into your brokerage and selling the options contract to open your position. The reason that you would do this is that you can sell an options contract for a fee which is called the premium. When you sell an options contract to enter a position, you get to keep the premium as profit no matter what happens. In a nutshell, this is the reason why people sell options contracts - to generate monthly income.

There are some risks involved in doing so. If you sell a call contract, the risk is that you are going to have to sell the underlying shares. So, for example, if you own 100 shares of IBM and open a call contract on those shares, the risk is that you will have to sell the shares.

Someone who was using this strategy would probably be hoping that they could profit by selling the options contract to use as a source of monthly income while keeping the shares. A common strategy is doing it right to be able to sell another options contract the following month. This way, you would be able to make some more income from the premium. That works most of the time, but sometimes it is not going to work. If the share price rises above the strike price you selected, you could be assigned and have to sell the shares.

People sell put options for the same reason – to earn monthly income. When you sell a put contract, the risk is that you will have to buy the stock and do so at a high price. So, if someone exercises the deal, you better have access to cash to purchase the 100 shares of stock behind the contract.

In most circumstances, the option is never going to exercise, which is what people are counting on when making put contracts. This way, they earn money by selling the put option contract based on nothing. That is not entirely true. A seller of a put contract is making money on the risk that they are taking by setting up the deal. That is, they assume the risk from someone else. It could interpret as someone buying "insurance" on their stock.

Of course, depending on the amount of cash that you need to come up with to purchase stock, the risk could be significant. The real danger is determined by how much the stock has dropped. So at least there is a lower limit to it.

CHAPTER 5:

# Options Strategies

Traders often jump into options trading with little understanding of options strategies. With a bit of effort, traders can learn to take advantage of flexibility and power. Strategies are usually laid in the trading plan and should strictly implement in every options trading move that is likely to be involved.

## Collars

The collar strategy established by holding several shares of the underlying stock available in the market where protective puts bought and the call options sold. In this kind of strategy, options trader is likely to protect the capital used in the trading activities rather than the idea of acquiring more money during trading. This kind is considered conservative and somewhat much more critical in options trading.

## Credit Spreads

It presumed that the biggest fear of most traders is a financial breakdown. In this side of strategy, the trader gets to sell one put and then buy another one.

## Covered Calls

Covered calls are a right kind of strategy where a particular trader sells the right for another trader to purchase his or her stock at some strike price and get to gain a proper amount of cash. However, there is a specific time that this strategy should utilize and in a case where the buyer fails to purchase some of the stock and the expiration date dawns, the contract becomes invalid right away.

## Cash Naked Put

Cash naked put is a kind of strategy where the options trader gets to write at the money or out of the money during a particular trading activity and aligning some specific amount of money aside to purchase stock.

## Long Call

It is the most basic strategy in options trading and the one that is quite easy to comprehend. In the long call strategy for options trading, aggressive option traders who happen to be bullish are pretty much involved. It implies that bullish options traders end up buying stock during the trading activities with the hope of it rising shortly. The reward is unlimited in the long call strategy.

## Short Call Option

The quick call strategy is the reverse of the long call one. Bearish kind of traders is so aggressive in the falling out of stock prices during trading in this kind of strategy. They decide to sell the call options available. This move considers being so risky by the experienced that options traders believe that prices may drastically decide to rise once again. It significantly implies that large chunks of losses are likely to be incurred, leading to a real downfall of your trading structure and everything involved in it.

## Long Put Option

First things first, you should be contented that buying a put is the opposite of buying a call. So in this kind of plan, when you become bearish, that is the moment you may purchase a put option. Put option puts the trader in a situation where he can sell his stock at a particular time before the expiration date reached. This strategy exposes the trader to a mere kind of risk in the options trading market.

## Iron Condor

The iron condor involves the bull call spread strategy, and the bear put strategy all at the same time during a particular trading period. The expiration dates of the stock are still similar and are of the same underlying stock. Most traders get to use this strategy when the market expected to experience low volatility rates and with the expectation of gaining a little amount of premium. Iron condor worked in both up and down markets and believed to be economical during the up and down markets.

## Married Put

On this end, the options trader purchase options at a particular amount of money and at the same time to buy the same number of shares of the underlying stock. This kind of strategy is also known as the protective put. It is also a bearish kind of options trading strategy.

## Cash Covered Put

Here, one or more contracts sold with 100 shares multiplied with the strike price amount for every particular contract involved in the options trading. Most traders use this strategy to acquire an extra amount of premium on a specific stock they would wish to purchase.

## Long Butterfly

This strategy involves three parts where one put option is purchased at particular and then selling the other two options at a price lower than the buying price and purchasing one put at even lower price during a specific trading period.

## Short Butterfly

In this strategy, three parts are still involved were a put option sold at a much higher price and two puts then purchased at a lower price than the purchase price, and a put option is future on sold at a much lower strike price. In both cases, all put bear the same expiration date, and the strike prices usually are equidistant, as revealed in various options trading charts. A short butterfly strategy is the opposite way of the long butterfly strategy.

## Long Straddle

The long straddle is also known as the buy strangle where a slight pull and a slight call are purchased during a particular period before the expiration date reaches. The importance of this strategy is that the trader bears a high chance of acquiring reasonable amounts of profits during his or her trading time before the expiration date achieved.

## Short Straddle

In this kind of strategy, the trader sells both the call and put options at a similar price and bearing the same expiration date. Traders practice this strategy with the hope of acquiring reasonable amounts of profits and experience various limited kinds of risks.

## Reverse Iron Condor

This kind of strategy focuses on benefiting some profits when the underlying stock in the current market dares to make some sharp market trade moves in either direction.

## Iron Butterfly Spread

Buying and holding four different options in the market at three different market prices is involved in the trading market for a particular trading period.

## Short Bull Ratio

Short bull ratio strategy used to benefit from the amounts of profits gained from increasing security involved in the trading market in a similar way in which we usually get to buy calls during a particular period.

## Strap Straddle

Strap straddle strategy uses one put and two calls bearing a similar strike price and with an equal date of expiration and also containing the same underlying stock that is usually stagnant during a particular trading period. The trader utilizes this type of strategy for the hope of getting higher amounts of profits as compared to the regular straddle strategy over a specific period of the trading period.

## Strap Strangle

This strategy is strong, where more call options are purchased as compared to the put options and a bullish inclination is then depicted in various trading charts information.

### Limit Your Risk

A good reason to go with buying options is that you will be able to limit your risk down to just the amount of money that you pay for the premium. With other investment options, you could end up losing a lot of money, even money that you did not invest, to begin with, but this does not happen when you are working with options.

Let’s say that you saw that the prices of cows were about to go up. You could pay some money upfront and enter into a contract with someone else to sell your five cows for $ 2000. At this point, since you are working with an options contract, you did not buy the cows upfront.

On the other hand, if you had gone up to the other person and purchased those cows straight up for a cost of $ 10,000, you could end up in trouble. For this example, the price of the cows may end up falling by $ 500, rather than going up by $ 500, and you would end up losing $ 2500 in the process. Since

you went into the options contract though, you would stand to lose no more than $ 250 if the prices were to fall afterward. You still stand to lose some money, but it is a lot less than you would have lost otherwise.

You will find that when you are working with options, it can provide you with some good leveraging power. A trader will be able to buy an option position that will imitate their stock position quite a bit, but it will end up saving them a lot of money in the process.

Let's say that you saw that there was an opportunity to make a profitable trade, you were only able to spare about $ 1000 to purchase the stock, but you didn't know that options were available. If we were still talking about the cows from before, you would not be able to purchase even one cow for the money (remember that they are about $ 2000 each without the options contract). So you would completely miss out on the possibility to make a profit.

But, if you decided to purchase with an options contract, rather than buying the underlying asset outright, the dynamics have completely changed. If you look into options contracts, you will be able to make more purchases, and potentially more money, compared to some of the other stock choices you can make.

Going back to the idea of the cows, the market price at the beginning of this trade is $ 2000. For a regular cattle trader, one who doesn't know anything about options had the $ 2000 in hand and believed that the price of the cattle is going to go up; he would only have the opportunity to purchase on a cow. If the cost of the cows goes up to $ 2500, this trader will only be able to make a profit of $ 500. It isn't bad, but since there is a significant risk with this option, it is not always the best.

On the other hand, a trader who knows a bit about options will be able to do things a bit different. If you had $ 2000, you could choose to purchase eight options contracts, with a premium of $ 50.t This means that you now have the purchasing rights for a total of 40 cows rather than the one cow the other trader had.

With the same profit of $ 500 per cow, your profit would be $ 18,000 (this includes the $ 500 per cow minus the $ 2000 you spent in the beginning to purchase the contracts). You earned thousands of dollars more compared to the original trader, but you used the same amount of money to get started.

CHAPTER 6:

# Ways to Trade in a Volatile Market

Investors will need to study the time frame charts associated with their underlying security selection. Take into account all three trends regarding the time frame and note how the security is moving.

Volatile markets, on the other hand, have fast-changing prices over short periods. Options traders can make use of a financial market's volatility to get a higher yield for their investment in the future. Options traders usually avoid slow-changing financial markets because these non-volatile markets often mean that no potential profit is available to the trader.

Therefore, options traders thrive on volatility even though volatility increases the risk of option trading. As a result, an options trader needs to know how to read the financial market correctly to know which options are likely to yield the highest returns. This ability comes with experience, continuous learning and keeping up to date on the happenings of the financial markets.

You may be excited to jump into the market and start trading right away, but there are a few things that you will need to do first. You will need to start with a good understanding of the basics that come with options, and you need to know some of the options types that you can pick.

After you have had some time to understand what options are all about and what you will be getting yourself into, it is time to come up with your motivation for trading. Ask yourself how much money you are looking to make from this trade and how you would like to use that money when you have earned it. This motivation is going to help you out so much when you are in the thick of the trading, and you need some help staying focus.

Many factors affect the volatility of the financial market. These factors include politics, national economics, and news reports. Options traders typically use one of two options strategies to gain the best yield from volatile markets. They are called a straddle strategy and the strangle strategy.

## Interest Rates

Most people are familiar with the term interest rates. Interest rates apply to

mortgages bank accounts and more. Interest rate as it applies to option trading is slightly different from the common variations.

The interest rate defines as the percentage of a particular price for the use of money lent over some time. This interest rate of an option has different effects on the call option and put option. The premiums for call options rise when interest rates rise and fall when interest rates fall. The result is the opposite on puts options. The premiums for put options fall when interest rates rise and rise when interest rates fall.

Interest rates affect the time value of options no matter what category they fall in!

You will come across the term risk-free interest rate many times in your study of options trading. It described as the return made on an investment with no loss of capital. It is a misleading term because all investments carry some level of risk, no matter how minute. It serves as a parameter in options pricing models such as the Black-Scholes model to determine the premium that paid.

## Dividends

Dividends are distributions of portions of a company's profit at a specified period. This distribution must be decided and managed by the board of directors of a company paid to a particular class of shareholders. Dividends can distribute in the form of cash, shares of stock and other types of property. Exchange-traded funds and mutual funds also pay out dividends.

As it relates to options trading, options do not pay dividends. However, the associated assets attached to that option can have them. Thus, an options trader can receive those dividends if he or she exercises that option and takes ownership of those particular assets. While both call and put options can be affected by the presence of dividends of the associated asset, this effect on the types of options is widely varied. While the presence of dividends makes call options less expensive due to the anticipation of a drop in price, it makes put options more costly because the amount of the dividend will decrease the rate.

## Get a Trading Account

Setting up an online trading account is the foremost thing to do when starting trading in options. Step by step instructions is provided by companies, which

makes it very easy to manage the account. But this process does take some time, so start early.

A lot of factors are taken into consideration while deciding on your trading account. The amount of money you're planning to invest in is the first thing that defines the type of account, which will be open.

A minimal amount of start-up money is required to start trading in stock only. Even 200$ will work. But a Basic options account needs a minimum start-up of 2000$. If you have enough capital, setting up a day-trading account shall be an optimal choice. This account enables you to buy and sell as many times as you want.

## Research Companies and Their Relevance

Acquiring the best research information can be a tedious task. The market has a lot of research groups. To make successful trades and make your ventures profitable, up to date information about options is of utmost importance. One needs to be completely aware of the existing market conditions. So, you can look for companies that provide this information and make more informed decisions.

## Select a Security

It is done by researching the finance units of significant news corporations. A simple search will turn up results such as CNN's Money division, which lists the most active companies according to the S&P 500. If the investor is already partially immersed in the finance world, it would be wise to seek out the advice of a friend or mentor. New options traders, and particularly those who are new to trading in general, should approach options trading cautiously. Rather than diving right in, investors should get their feet wet by experimenting with a limited number of securities and options so that they can keep track of gains and losses and avoid mistakes for future investments.

## Choose Over the Counter (OTC) or Regulated Trading

It suggested here so that new investors can refer to the boards of a regulated exchange, such as the New York Stock Exchange when choosing a put or call that is well suited to their tastes. Traders can pick up an OTC option if desired, such as a call to cover the cost of an insurance put, also known as a married put.

## Select Strategies

Before beginning trading, investors will need to be sure they are familiar with a few simple strategies that can implement with a stock.

## Get a Broker

Interactive Brokers are favorable in case you open only one account. They offer quick options for information while being less expensive than other alternatives.

A lot of online brokers can found, but they charge a certain amount for their services, which can affect your profit margin in the initial stages of trading.

The broker is going to be the person who works with you and often will be able to give you advice and help you to make the trades that you want. All brokers that you go with will require some fees or a commission that you will need to pay to use their services, so you must factor this in when figuring out the costs that you want to incur. There are many different types of brokers that you can go with and the price that you pay will depend on the type and amount of services you choose. When you pick out the broker you want to work with, you will probably need to meet with them in the beginning and discuss your trading plan and how they will be able to help. They will go over a risk assessment with you, so they know where you stand with the number of risks that you are willing to take. It is the right place for you and the broker to get started together so you are on the same page and can get things done.

## Purchase Options and Trade

Finally, the moment investors have been waiting. Based upon conclusions drawn from studying time frame charts, investors will need to buy the appropriate calls or puts. At the same time, investors should choose one or two of the strategies with which they are already familiar that they believe will work well in the present market climate if trading via a regulated exchange, options for the plan may select from a list published by the trade.

**CHAPTER 7:**

# Forex Trading

Although currency trading does resemble the stock market, an individual with capital can purchase a commodity on the market. In the case of the foreign exchange, the commodity is a foreign currency, but there are differences. There are levels of access to currency trading, meaning that the participants involved have access to more real-time information about currency trading rates and the associated volumes compared to others.

In other words, a trader would have access to less real-time information about foreign exchange rates and how much is being traded compared to a large bank like JP Morgan or even a hedge fund or money transfer company.

The relevant market participants for you to understand are:

- Large banks (accounting for 51% of the volume of foreign exchange in 2016)
- Smaller banks, multinational corporations, and hedge funds,
- Central banks
- Investment firms
- Retail traders

The last category is where you come in as. You will most likely be participating in currency trading as an individual trader (called a speculative retail trader), though you will be participating in the transaction through a broker. Banks are capable of making large transactions, in the hundreds of thousands of units or higher, with one another through something called the interbank market, which you will not have access to as an independent retail trailer. You will primarily be interacting with the bank through another party, the broker-dealer, who has a relationship with the banks and other holders of the currency. Because of various scandals that have plagued forex over the years, broker-dealers and some traders required to register with national organizations, like the National Futures Association (NFA).

As you might imagine, market participants in currency trading have grown more complex over the years with more modern types of financial bodies. They are gaining an increasing role in the industry, like banks, namely hedge funds, pension funds, mutual funds, and insurance companies. Though this may seem like extraneous information, it is essential to understand as banks, corporations, and these various other types of financial institutions and sources of capital are the movers and shakers in the industry. They are the market makers. As foreign exchange values are not entirely subject to the whims of banks and other financial bodies purchasing or swapping large volumes of currency but partially set by the foreign exchange fixing that occurs daily courtesy of a country's national bank. As you might guess, the higher volume currencies not fix, although a nation's central bank can use various means to stabilize their currency if there is a fear of falling currency value or market collapse.

In truth, to get started in currency trading you need five things at least:

- Account balance (or capital)
- Access to real-time economic news and analyses
- Right approach on how you will turn your capital into profit
- A retail trading platform (a broker)

## Foreign Exchange Brokers

Although we put forex brokers last in our list of the things you need to get started in trading, we will discuss this list item first as it is a key to understanding and making the best use of the others. What is a forex broker? Well, as you, the trader, is little more than a tiny ant in the foreign exchange game, you will be involved in trading through an intermediary that has more access to information than you do.

The broker has access to the interbank information upon which the currency trading bids and asks base. Sure, the $25,000 you have to start with is a lot of money, and you worked hard for it, but you have to understand that the banks are dealing in the millions and billions and the sorts of figures that you will most likely be handling are infinitesimally small to them. The broker (also called the broker-dealer) is the person or platform that you will be dealing with rather than dealing directly with the banks that hold the currency. You

will register with a broker or brokerage platform, and you will use their electronic platform to engage in your trades.

Like any other market that deals with money, there are many options when it comes to choosing a forex broker.

## Account Balance

So, the forex brokers are how you, as a trader, will participate in currency trading, but naturally, to trade, you will have to possess capital. Unfortunately, unless you work for a bank or other financial institution (or you have wealthy parents), no one will be providing you with their money. You will have to use your own. As you now understand, it is not difficult to register with a broker who will allow you to use their platform to engage in trades, but to do this; you will have to have some capital or account balance of your own. You will get differing opinions from different people about how much you need to get started. In reality, you can start trading with as little or as much as you want. Some sources quote $20,000 or $25,000 as a good starting point, but naturally, most people will start the forays into trading with less than that.

Though you may be trading initially with low capital, it is essential to recognize that account balance plays a significant role in foreign exchange trading. A typical daily trade may be in the thousands of dollars for a new trader. Not only is the potential payout of this one trade minimal, perhaps only $30 of $40, but you may be exclusively engaged in a few trades like this in a week. And, of course, every trade comes with some risk so that you could lose money on this trade. If you are investing your entire account balance on a single trade, then you could potentially end with a loss. One way to overcome this hurdle of a low (or relatively low account balance) is to participate with a funded trading program that may only require you to front a small amount while you trade with their capital.

## Using Global Market Data and News Source

For many years, a reserve of professional traders (working on behalf of banks and firms) and real-time news sources that compiled market data from various sources became widely available to retail traders about 5-10 years ago. It is a feature of the currency trading market, not unlike the stock market, that prices are going to be influenced by various events in world

affairs. For example, the Pound sterling has experienced a full since the United Kingdom announced that it would be leaving the European Union after a referendum, and various currencies on the Asian markets experience rises and falls due to trading deals, military maneuvers, political instability, and the like. Currency and commodities trading are investments, not unlike stocks.

Instability in a country or a market suggests a riskier investment. Hence, it is easy to understand why the value of that currency would fall relative to a more stable state or market.

Being successful in currency trading requires this sort of approach. You have to be patient.

## The Right Approach

To be successful in currency trading, you need to make sure that you are approaching things the right way. First, understands that you are in this for the long haul. That means that you know that you are not going to turn your $10,000 to $100,000 in two or three weeks by engaging in three or four trades every day. Sure, you could try that, but if that strategy worked, then the internet would be littered with tales of how this unemployed dad or that soccer mom made $100,000 in two weeks trading currency, and there haven't been many stories like that—at least none that we have heard. Currency trading is a long-term investment. You make a trade today based on an informed decision on a particular currency, and perhaps you hold onto that currency for three weeks, patiently waiting as it slowly rises in value: three pips, four pips, 12 pips.

Being successful in currency trading requires this sort of approach. You have to be patient.

Having a trading plan has been shown to work for professional traders, and it will undoubtedly work for you, an independent retail trader. Think about it this way: you are not investing your company's money; you are investing your own.

A trading plan does not have to be something extremely elaborate. You will have to decide what's essential for you to know down the line when you are trying to figure out why you bought so much Thai baht when the news reports from the day prior suggested that actually, you should have purchased

South Korean won. Your plan should explain why you are buying this currency vs. that based on detailed information that you have (like the resolution of a political crisis, foreign investment, revised economic forecasts, etc.).

The purpose of a trading plan isn't to waste your time or to bore you with the intricacies of an endeavor that you expected to be quick, easy, and fun. Currency trading, like the stock market, is subject to alterations. It is not enough to have capital, a broker, and a news source. You may have all that and still lose money. You need to have a trading plan.

**CHAPTER 8:**

# Futures Trading

Futures are a derivative form of financial contracts that oblige the related parties to perform a transaction with an asset at a future price and date that has predetermined. In futures trading, the buyer required buying, or the seller needed to sell the underlying securities at the price that has set, no matter what is the current price in the market or what the expiry date. The underlying assets comprise of physical commodities and other instruments of financing. They are standardized as well for facilitating trading on a futures exchange. You can use futures for speculation of trade or hedging.

Futures, also known as futures contracts, permit the traders to set the price of the underlying security or asset. All such agreements come along with dates of expiry and also set prices that are determined upfront. Futures generally identified using the month of expiry. For instance, a gold futures contract for December will expire in December. While trading futures, there are various types of contracts that you are most likely to come across.

Stock futures, for example, the S&P Index

- Commodity futures, for example, natural gas, crude oil, wheat, and corn
- U.S. Treasury futures related to bonds and various other products
- Precious metal futures for silver and gold
- Currency futures including pound and euro

It is essential to identify the differences between futures and options. Contracts of options provide the holder with an overall right for selling or buying the underlying security at the date of expiration. The holder of futures contracts is obliged to fulfill all the contract terms.

## Pros of Futures Trading

- The investors can use up contracts of futures for speculating right on the direction in the set price of the underlying assets.

- Companies have the chance of hedging the raw material price or the products sold by them for protecting themselves from adverse movements of the cost.
- The contracts of futures need a deposit of only a portion of the amount of contract with the broker.

## Cons of Futures Trading

- Investors have the risk of losing more than the starting margin amount as futures use up leverage.
- Investing in contracts of futures might lead a company that hedged to miss the favorable movements of the price.
- The related margins might act as a double-edged sword. The gains will amplify, and so will be the losses.

The market of futures uses high leverage. Leverage means that a trader of futures is not required to give in 100% amount of the contract value at the time of entering into any trade. Instead, the broker will need an initial amount of margin, which includes a part of the total cost of the contract. The amount that will be held by a broker can differ relying on the contract size, the terms and conditions of the broker, and the investor's creditworthiness. The exchange where the trading of futures takes place will determine whether the contract can be cash-settled or meant for physical delivery. Any corporation can enter into a contract of physical delivery for locking in the commodity price that they need for production. But, the majority of trades of futures are from all those traders who speculate on the trades. Contracts are either netted or closed out. The difference between the closing price of the trade and the cost of the original trade is settled by cash.

## Speculation of Futures

A contract of futures permits a trader to speculate on the movement direction of the price of a commodity. If a trader purchases a contract of futures and the commodity price rises and starts trading much above the actual cost of the contract at the date of expiry, the trader will be making a profit. Before the expiry date, the long position would be unwound with a selling trade for a similar amount at the present price, effectively closing up the extended position. The difference between the contract prices will be cash-settled in the brokerage account of the investor. No form of physical products will be

changing hands. But, the trader might also incur a loss if the price commodity turns out to be lower than the cost of purchase that has specified in the contract of futures.

The speculators will also be able to take a sell speculative or short position if they think that the price of the underlying security will be falling. If the asset price declines, the trader will be taking an offset place for closing the futures contract. Once again, the difference will get settled at the expiry date of the futures contract. An investor can make a profit when the price of the underlying asset is below the cost of the contract and will incur a loss of the present rate is more than the price of the contract.

It is essential to note that margin trading will permit a more significant position than the actual amount held by the account of the brokerage. As the final result, investing on margin can improve the percentage of profits but can also maximize the losses. For example, when a trader has a brokerage account balance of $5,000, and he is in a trade for a position of $50,000 in crude oil. If the oil price moves in the opposite direction of the trade, the trader will incur a loss that can even exceed the $5,000 margin amount of the account. In such a case, the broker will be making a margin call for additional funds that need to deposit for covering the losses of the market.

## Futures Hedging

Futures can use up for hedging the movement of the price of the underlying security. The primary goal here is to prevent losses from the inherent nature of unfavorable changes in price rather than speculating. Most of the companies that opt for hedges are producing or using the underlying security. For instance, a farmer of corn can start using futures to lock in a particular selling price for their crop. By doing this, he can potentially cut down the risk and also guarantee that he can receive a fixed amount of pay. If by chance, the corn price falls, the company will be gaining on the hedges for offsetting the losses from selling the crop in the market. With such a form of loss and gain offsetting one another, hedging can effectively lock in a high price in the market.

## Futures Regulation

The markets of futures regulate by the CFTC or Commodity Futures Trading Commission. CFTC is a form of a federal agency that was set up by Congress

in the year 1974 to ensure integrity in the market price of futures. It also included the prevention of abusive practices related to trading, regulation of the brokerage firms that are related to futures trading, and prevention of fraud.

**Example of Futures Trading**

Suppose a trader is willing to speculate on the crude oil price by entering a position in the contract of futures in May. He enters the position with the expectation that the crude oil price will go up by the end of the year. The crude oil futures of December traded at $50, and the trader fixes in the contract at that price. As crude oil is traded in the increment of 1,000 barrels, the trader is now holding a position that is worth $50,000 in crude oil ($50 x 1,000 = $50,000). But, the trader is only required to pay out a part of the total amount upfront, the initial amount margin that is needed to deposit with the related broker. In the period between May to December, the crude oil price will fluctuate exactly as the futures contract price. In case the price of crude oil turns out to be too volatile, the broker might ask out for extra funds that need to deposit into the account of margin. In December, the expiry date of the futures contract is approaching, which is the third Friday of that month. The overall price of crude oil rose to $65. Now, the trader sells out the original futures c0ntracts for exiting his position. The total difference will be cash-settled. They will earn a total of $15,000, excluding the commissions and fees of the broker ($65 - $50 =$15, $15 x 1,000 = $15,000).

But, if the price of crude oil came down to $40 in place of rising up to $65, the trader will be losing $10,000 ($50 - $40 =$10, $10 x 1,000 = $10,000).

Futures are an excellent form of investment when appropriately used. It would help if you determined the market conditions accurately for gaining profits.

**CHAPTER 9:**

# Cryptocurrencies

Since the technology is still new, the community around the Cryptocurrency market is small and can be very beneficial if used correctly. We will talk about useful tools for trading, describe the best of exchanges and talk about how not to let Cryptocurrencies take over your personal life.

Cryptocurrencies have also known to threaten the price of credit for traditional financial institutions. More trades are occurring with cryptocurrencies, and it is quickly becoming apparent that the customers of conventional banks are losing confidence in fiduciary currencies. It is going to cause a lot of difficulties to occur for the financial institution when it comes to gathering data to look and figure out what is taking place in the economy. This data is given to the government for them to steer the economy in the direction that they want it to go.

You may have heard of cryptocurrency, cryptocurrency, or crypto assets; the remarkable thing is that they are all the same thing. It is going to be a trade of money that will utilize the controlling of units that are going through negotiations. Cryptocurrencies are digital currencies that will cover topics such as Ethereum and Bitcoin. The very first digital currency that worked with a decentralized system was Bitcoin which happened back in 2009. Ever since Bitcoin came out, other cryptocurrencies have come out as well, such as altcoins and Ethereum. Altcoins are going to be an alternative to Bitcoins.

Like it was just mentioned, the cryptocurrency program is going to be decentralized, and it is going to work on a blockchain where each negotiation will locate on a block. The fact that it runs on a blockchain makes it to where it is not going to run like a traditional bank. It is also going to make it different than typical banks because a conventional bank is going to run on a centralized system.

Some people call Cryptocurrencies the best distribution of wealth there has ever been, and it is hard not to agree when we see all those 20-year olds changing their lives thanks to this market. Since we live in times where social

media has become the primary means of communication between young people, Cryptocurrencies are no different as new generations dominate them. Leading social media platforms include Facebook, Reddit, and most importantly, Twitter. That is, apart from private groups being active on Telegram and Discord where the access usually must be requested.

Having an account on those channels is essential to do proper research – it provides you with a community to share ideas with, a lot of rumors and news that you would not find anywhere else and a vast base of knowledge from the best traders out there. Since Twitter possesses the most significant number of experienced traders, we would highly suggest having an account on one of these platforms to soak everything crypto-sphere has to offer. It is not only an excellent research base but also a fun place where you will be able to network with the most creative and exciting personalities this market can offer.

The growing popularity of Cryptocurrencies on social channels has also lead to the appearance of influencers that in such a small community can have enormous powers. We can confirm that from our experience as one of us owns an account of significant size as well. Most of the big accounts are 100% anonymous, hiding behind cartoon avatars without revealing real data about themselves. As a result, popularity leads to them being able to influence the market in various ways.

It is a natural occurrence that a lot of people try to build a brand of their own that gives a lot of benefits to the person. Having followers not only helps in research (as people interact with you and often share their results with you) but also provides a lot of opportunities to earn money, which is probably the most significant threat we would like to warn you.

Being a big personality on Twitter not only allows you to cause movements on the market but also attracts companies offering money to promote their products (usually Initial Coin Offerings but other coins do this as well). Since money makes the world go round, a lot of people are taking this opportunity to earn extra profits without disclosing their real intentions. Unfortunately, this happens all too often; therefore, you should always do your research and keep this in mind.

Let’s not put everybody into one basket and let’s see how you can benefit from being a part of the community:

## Learn from the Charts

There is no right or wrong way to create charts as everybody has their style that either works for them or not. Being exposed to dozens of traders, everyone has a different approach to Technical Analysis helps enormously to grow as a chartist. The study which indicators bring the most success and compare those scenarios with your trading ideas – this way, you will always have many different perspectives on how trade can play out.

## Look for Unknown Tickers

Go through random threads and look for people shilling their coins. You would be surprised how often the biggest gainers appear in threads like this before a high profile picks them up, and the run starts. Never fall for the suggestion of investing, always do your research on it once in a while that might be a potential big move.

## Form a Group

There is only so much a single person can do, whether it is research or charting through the whole exchange. With so many good traders in the crypto-sphere, there is no reason why you should not reach out to other people to share ideas and help each other. It not only takes a lot of weight — in this case, work- from your shoulders but also opens you up to the parts of trading you might not be good at (finding shallow caps, margin trading — you name it).

## Be Up to Date with All Important Events

If you can filter through some obvious shills, you will be able to understand what is currently going on in the market and maybe find some excellent investment opportunities along the way.

One last thing that we would like to address in this topic is paid groups. It is a common phenomenon that during the bull market, there are a lot of traders that open paid signal groups. Places, where you pay a monthly fee, where your “guru” gives you, buy/sell signals that theoretically should outperform the market. We understand that there is a massive demand for that kind of service because not everybody has enough time to learn about trading themselves or spend so much time in front of the computer. However, as we have experienced two of the most massive alt seasons ever, we can confidently say that the vast majority of these groups are not worth the

money. During a serious bull run losing money is almost impossible, as even blind guesses tend to give 50-100% gains (this is not an exaggeration, the crypto market is very irrational in its growth during alt season).

Successful traders often outperform the market with their calls, and we will not take that away from them. Things, however, get interesting when the bull market takes a break, and people must guide through retracements. We have seen groups holding through 70% losses as the group owners were not able to give profitable calls during the bear market.

If you need a service like this, because you lack time, make sure you talk to the current members. Get an honest confirmation on group makes profits in both, bull and bear markets and that it provides lessons on how to trade as well. Otherwise, we highly recommend learning how to trade by you. Not only because it will save you money from the fees, but because there is much free content to learn from by yourself.

Knowing how to trade will not only bring you a quick profit now but will also remain a valuable skill for the future as you can use your knowledge for stocks as well. Trading requires enormous amounts of self-control and patience that cannot achieve by following calls from others, as it comes strictly from experience and being on your own with a trade.

CHAPTER 10:

# Day Trading Options Strategies

Day Trading is the process of buying and selling stocks over a relatively short period. A day trader chooses stocks that are highly volatile and takes a short or long position in them. The motive of the day trader is not to hold the stocks for too long. The trades usually held for short periods. As soon as the stocks move a bit up or down, they are either sold for a profit.

It is how day trading around the globe works. However, this is also the way most day traders lose most of their capital in the stock market. They trade excessively, making dozens of trades within a week. Such extensive trading means that they are unable to do any qualitative research on their trades and they are essentially gambling.

Still, people expect the share prices to go up or down as soon as they buy the shares. It is the height of self-importance people can attach to themselves, and it doesn't work. Most of the time, stocks don't make a move or start moving in the opposite direction.

It happens because there are more experienced traders out there who were buying when you saw the prices of the stock go up. These traders are cautious. They know the kind of momentum they can expect from trades picking up from a news cycle. By the time you take entry into the stock, either it has peaked out, or it is about to peak out. It is the reason as soon as you buy stocks they start moving out. These are overbought or overvalued stocks. They are bound to have a sharp correction.

## Basic Strategies

Day traders rely on four basic strategies to make daily profits in the stock market.

## Bull Put Spread

In the strategy, there are two puts involved. A small port with a higher strike price, and a long put with a lower strike price. However, the expiry date of both these puts will be the same. You must use the strategy if you believe that

the value of the underlying securities will increase moderately or will stay stable shortly. It's a combination of a long put and a short put. To build a bull put spread, you will be selling at the money put options while simultaneously purchasing artist the money put options based on the same underlying asset, and with the same date of expiration.

## Bull Ratio Spread

This strategy is an extension of the bull call spread strategy and is helpful if you're expecting the price of the security to increase. It offers a great deal of flexibility, but it is likely tricky to understand. You mostly have two purchase calls and write calls with a higher strike price. It is known as a ratio spread because it based on the concept of buying and writing calls in a specific ratio. Depending on your objective, you are free to determine this ratio. As a general rule of thumb, it is a good idea to go with 1:2 ratios. So, for every call you buy at the money, you must write two out of the money calls. By doing this, you will receive more cash for offsetting the costs of the once you purchase.

## Reversals

A reversal is a significant change in the direction of the price of the stock. So, the trend completely shifts and moves in the opposite direction. To look for reversals, look at the candlesticks on a stock market chart. The body of the candlesticks and its size relative to the prior (to the left) candlesticks is what is essential. First, let's consider a signal for a reversal where a declining stock price is going to be going up in the future. If the candlestick of the most recent time is more significant and fully engulfs or covers the candlestick to the left, and it's the opposite color, i.e., a green candlestick following red candlesticks, this indicates a reversal of a downtrend into an increasing stock price. It is an excellent time to go long or buy calls.

On the other hand, let's now consider the case where the stock price is going up, with multiple green candlesticks in a row. Then it is followed by an engulfing red candlestick. It indicates a reversal, so we will expect the stock price to begin going down. That is, this is a point where we should short the stock, or if trading options invest in puts.

When using reversals as a trading strategy, you need a minimum of five candlesticks in a five-minute chart. Then look at the relative strength index,

which helps you evaluate overbought or oversold stocks. The RSI ranges from 0-100. In an uptrend, the RSI is above 90 indicates the stock is overbought and is probably going to be heading into a downturn.

On the other hand, when you look at the bottom of a decline and the RSI is ten below, it indicates that stock oversold. That could be a signal that is about to see a price increase.

At any time, there appears to be a reversal, a trend of indecision candles or stagnation represents a buying opportunity no matter which direction the stock may be trending. That is if you are in the midst of a downturn and the stock is moving sideways, then it may be an excellent time to go long on it or buy calls. The opposite is exact if the stock is at the top of a potential reversal. If it's moving sideways, it may be a good time to invest in puts. Keep in mind that this does not always work. The best indicator is whether or not a green (red) candlestick following a red (green) candlestick which engulfs the candlestick to the left is the best indicator of a coming reversal.

## Support and Resistance

Support and resistance refer to lines on a pricing chart that act as barriers. That is, a support line will found at the bottom of the chart that indicates a pricing level that serves as a minimum. In the increasing or higher rates, the resistance line is a top or maximum limit to expected changes in price and expected that the price of a security would go above the resistance line.

Support and resistance levels primarily used to identify points at which the probabilities support a reversal, pause, or prevailing trend in the stock price. Since support found at the bottom of a pricing chart, this means that the aid represents a point where a downward trend can be expected to pause, and possibly reverse. On the other hand, the resistance is at the top of a stock pricing chart. Hence it represents a point where an upward trend can expect to pause, and possibly reverse and so turn into a downward trend. Of course, not all pauses result in reversals, so you will have to look toward other signals such as the candlesticks and the Bollinger bands.

CHAPTER 11:

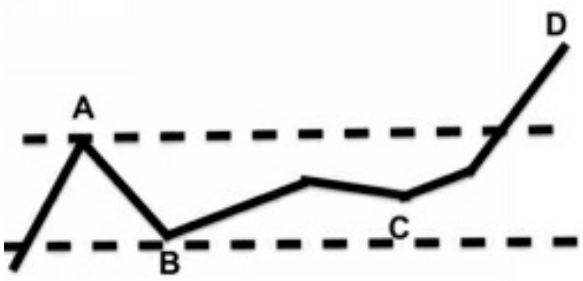
# More Strategies

## ABCD strategy

The ABCD strategy is an essential strategy that looks for a particular pattern in stock to get an idea of what the trend is in the market. What you are looking for is a stock that starts low and rises to a high point A, and then drops back down to a low point B. Point A represents the breakout level, that is if the stock passes point A, a second time during the trading day you're expecting it to rise significantly, representing an opportunity where you can sell for profit. So why would point A drop down? It is a point when many investors have decided to sell because they are happy with their earnings, and they are suspicious of the stock continues to increase.

As the stock begins to be sold off, at some point, it will reach a low point, which will be point B in the chart. The low point occurs when new buyers overtake sellers that began selling as a result of the stock reaching the high point A. Then, when more buyers come in the stock will settle on a new low point, C, which will be higher than point B. If this pattern established, you take your risk level as point B. After it hits point C, it may begin moving upward again. It is a signal of an excellent buying opportunity so we may jump in at this point. If the ABCD pattern realized, it would move up to a new high point D, where we can sell and take our profits.

In the chart below, if the stock goes above point A, this is considered a breakout it is time to consider selling. It is a bearish ABCD, which means you see a time to market and take profits before the stock drops again. Point B, could you're your stop-loss point. It is a bearish ABCD, meaning we expect it to fall.




Example — suppose that XYZ Stock opens strongly, going from $50 a share up to $60 a share. Then over the succeeding hour, it drops to $40 a share. It then raises to $55 a share and drops a little bit to $53 a share. At this point, we will consider buying. Our risk level is the lowest point which was $40 a share. If the stock starts turning upward, we buy. So, we can take any point between that and our purchase point as a stop-loss, so, for example, we could set a stop loss at $45. It then continues upward to point D, say it raises to $63 a share, where we sell to take our profits before the stock drops again.

We can also have a bullish ABCD pattern. It is where the stock looks to rise.

In this case, we buy at point D. it can do buying calls or go long on the stock.

When we see ABCD patterns, the lines AB and CD are known as the legs. The line BC is either called the correction or the retracement. A retracement is a temporary reversal of the stock price. In that case, the stock has an overall upward trend for the day. So, the retracement is seen as a temporary downturn that is going to reverse. A correction is a downturn of 10% or more in the price of the stock. A correction is an ideal time to buy a stock because odds are it's going to go back up and possibly strongly so. In the second chart, at point D, there has been a correction. In the first ABCD graph, we see a retracement, on the way to an overall upward trend.

Ideally, the lines AB and CD should be of equal length.

## Bollinger Bands

Bollinger bands are a trendy indicator for day traders, looking for price actions and signs for strengthening or weakening. These developed by none other than John Bollinger. Bollinger bands are adaptive trading bands. A trading band is simply a range of prices for security (aka stock). In particular, Bollinger bands represent:

- Volatility
- The extent of price movement
- They indicate trend lines defining support and resistance

Bollinger bands calculated using standard deviation. It is calculated relative to some average of prices, for example, the moving average over a given number of periods. What the Bollinger band represents then, is the spread of prices about that average.

Bollinger bands only measure closing prices and how to spread out they are. Typically, they measure the 20 periods moving average, but they used for 50 or 100 periods.

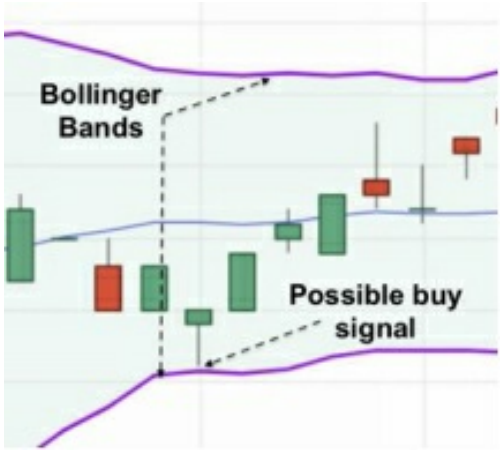
Bollinger bands are dynamic. You will see them around the candlesticks in a stock chart. When they narrow, that is known as a volatility squeeze. If they spread out, that is a volatility spread.

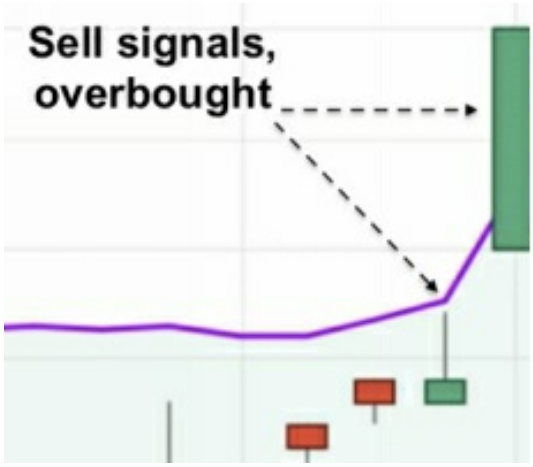
- If the bands are narrow, which indicates that the prices over that period are falling within a smaller range (i.e., the closing prices for each period are relatively similar to each other).
- If the bands are more extensive, that indicates a greater spread in prices, that is, individual prices differ from each other a lot more – put another way, there is more volatility.

Bollinger bands signal that a day trader looks.

- If wick of a candlestick at the bottom hits the Bollinger band, that can take as a buy signal. The stock oversold, so it's a good time to buy.

- When the candlestick touches or crosses the upper Bollinger band, then the stock is overbought and time to sell.




Of course, the vice versa applies, if a candle hits the top band, it may not be a sell signal, you may want to short or buy puts.

When the candlesticks are hitting the Bollinger bands, this may indicate a reversal. A hammer at the bottom of a reversal touching the bottom Bollinger band is an excellent buy signal in many cases. Reversal candlesticks that touch a Bollinger band are a reliable indicator that there is a reversal coming.

When using Bollinger bands, you will want to look at the shape of the candlestick itself. It can strengthen or weaken your indicators. If you see a hammer at the bottom of the Bollinger bands, this can indicate a coming upturn in the stock, so it's a good time to go long.

## Moving Average

Another trading strategy that can exploit is the moving average. It may help when a trader is looking for entry and exit points while trading. First, we will

look at the simple moving average crossover strategy. Look at candlestick charts when considering moving averages with a two-minute interval.

You can include multiple moving averages in a chart with different periods. A faster-moving average on a chart is colored red, and a slower moving average is shaded green. A buy signal is a red line moving above the green line. That is, it breaks above the green line. A sell signal is when the green line is above the red line. If the lines are overlapping, then that means to wait. So, to profit, when the faster moving average tops, the slower moving average, you go long, which means buy the stock or buy a call option. When the red line or faster-moving percentage goes below the slower moving average, it is a sell signal. If you went long, you sell your stock. It could also be an indication to buy puts.

A stop loss should be five or ten percent below the moving average line.

Stable profits can realize when the stock breaks out high above the moving average. You can choose to take a half-position at this point, in order to lower your risk.

CHAPTER 12:

# Investment Capital Strategies

When you get started with investing, there are various investments and trading opportunities that you can take advantage of to help you increase your profitability. With swing trading, individually, you are generally paying attention either to options or stocks, as these are the two financial instruments that are going to earn you the best profits with your trading strategy. However, there are other financial instruments available to invest in that can supply you with a more considerable income by helping you increase your profitability effectively.

In general, there are four specific financial instruments that you should familiarize yourself with as a beginner. While other tools do exist, these four are the ones that are going to have the most significant impact on your ability to increase profits and earn a more reliable income through your investments. Acquainting yourself with them now will help you understand how swing trading options fit into the bigger picture of investments, as well as what other opportunities are available for you to explore at a future date if you so desire.

## Stocks

Stocks are what everyone thinks about when they think about trading on the market. Stocks, sometimes called raw stocks, are the actual shares that traders can purchase in a company when they are trading. For example, you could buy stocks in Apple, which would afford you a certain number of shares in the company. In other words, you would purchase the right to own a tiny portion of the company. However, it is large enough for you to trade and capitalize on, as the value of the company increases.

With swing trading stocks, you are looking for medium-term increases in the evaluation of the company. You want to find companies that are going to experience medium-term increases in the valuation of their shares or their stocks. It regularly happens whenever there is any sort of news impacting the company itself or even when it is just being traded more frequently than other stocks. A great way to identify these stocks, however, is to pay attention to

general headlines, as well as stock news platforms, as they will give you a greater insight as to what companies are likely going to fluctuate soon. Anything from launching new products to failed product launches or hiring or firing a CEO or senior executive in a company can lead to fluctuation in the price value of these stocks, meaning that they are highly volatile. For that reason, you need to ensure that you conduct a robust technical analysis before ever engaging in the trade to avoid being subjected to an unexpected and possibly devastating loss. Although there are risk management tools that you can apply to each trade, you want to make sure that you are still incredibly cautious before entering any stocks. As it is your primary goal is always to maximize your profits, not minimize your losses.

## Bonds

A bond is a form of loan that made to a large organization. As an investor, you invest a certain amount of capital into a bond, and so do several other investors. As a result of your collective investments, a large amount of money accumulated that is then borrowed by a company to help them grow their business and, therefore, increase their evaluation. Bonds exist because the sheer size of the entities acquiring require them to borrow from more than one place since one single place could not reasonably invest in the amount that they need. If a bank, for example, were to spend money on something, it would place a massive burden on that bank that would also come with a substantial risk. Even if the company was consistently performing well, any changes could result in that company going bankrupt and the bank never receiving their capital back. Instead of the bank taking on such a massive risk, several different investors put up a smaller amount, which decreases each individual's exposure while also increasing their earning potential. Since such a large amount of capital borrowed, it means that the gains on that capital will be massive. Think about it this way: 2% of 1 million dollars is $20,000, whereas 2% of $1,000 is only $20. Your earning potential in this scenario is much more potent than your earning potential if you were to invest in something smaller on your own.

When you enter a bond, the organization that is borrowing from you and all of your fellow investors create a promise to pay the entire loan back by a specific date agreed upon by them. Until then, there are interest payments that are paid out to the investors at a fixed rate until the loan is to pay back. In this case, you gave back your principal investment or the face value of your

investment, as they call it, and you receive back all of the interest, too. As a result, you earn massively through bonds, as long as you invested in the right companies.

## Mutual Funds

Mutual funds are another form of investment that generally requires a long-term position for investing; as you earn more, the longer you are invested in them. The easiest way to understand what a mutual fund is would be to think of it as a basket that is professionally managed by one single individual or company. Despite this, the mutual fund does not have to invest in through a full-service brokerage; you can still invest manually through your brokerage and with your strategy.

The reason why a mutual fund requires a professional portfolio manager is that several people are investing funds into a higher fund then allocated into various stocks and bonds and other financial instruments. Remember, 2% of one million is a lot higher than 2% of one thousand. It does not necessarily mean that the portfolio manager will be investing in anything worth a million dollars, but it does mean that your earning potential is much higher. Also, since the fund is managed by a professional and allocated into several different directions, you gain the benefit of diversification, which is a well-known risk management strategy. For this reason, mutual funds are an excellent long-term position to enter that will enable you to increase your profits over time.

## Options

As you have already come to know, options are a financial instrument that represents another financial instrument because they are contracts used for underlying trading assets. The entire concept of options might seem confusing if you are new to it. Still, it does get easier to understand, and it also makes sense as to why they afford you risk-protection while maintaining your profitability.

The easiest way to break down options is to look at them this way. Let’s say you see that stock ABC is increasing in value, and you want to invest in it so that you can gain profits form that increasing value. If you were to buy it right now, and it increased in value over the following week, you would sell your stocks and bank your profit. If, however, you were wrong, and the stock

dropped over the week, you would have lost a percentage of your investment. That percentage might be considerable, depending on how many shares you had purchased. As a result, you exposed to higher risk.

Instead of investing directly into stocks, however, you could instead invest in options contracts. These contracts, as you know, afford you the option to buy the stock. The options themselves are a lot less of an investment than the stocks themselves, often reflecting only 2-5% of the overall stock value. The investment you make, known as a premium, allows you to buy this contract and then hold the right to buy the stock if it turns in your favor. This way, if it does, you can go ahead and purchase the underlying stock and earn your profits. If it doesn't, however, you can let the option expire without worth.

To make options worth it, they come with what is known as a strike price and an expiry date. This strike price reflects the amount that you will pay per share if you choose to buy them, and the expiry date indicates when you have to make your decision. If you buy options that are valued less than the increase you expect to see in the market, then you directly purchase your opportunity to increase your profits. In this case, if the market does go up as high as you expect, you exercise your option to buy them at the lower price then immediately turn around and sell them at market value or hang on for a bit longer and then sell them, depending on what your strategy is.

**CHAPTER 13:**

# Market Patterns

Patterns identify the changes between rising and declining cycles. It is an identifiable arrangement of price fluctuations defined by a sequence of patterns and curves. Technical experts have long used pricing dynamics to analyze existing developments and foresee potential market changes. Since market patterns are defined using a sequence of lines and curves, it is helpful to understand the trends and to know how to identify them. Trend lines are straight lines drawn on a map, joining a sequence of descending peaks or rising troughs. A trend line that points up, or an upward trend line, exists when markets are seeing higher-ups and low downs. The upward trend line draws by linking up the upward lows. Conversely, a downward trend line, called a downward trend line, exists when markets are seeing lower highs and lower lows.

## Price

Prices on a trading chart never depicted as a straight line. Sure, you can choose to view it this way, and sometimes traders find that it clarifies things a bit, but over the long run, the standard line chart has very little use when it comes to making money trading. Instead, what you will find used most often are candlesticks. Figure 1 shows what candlesticks look.

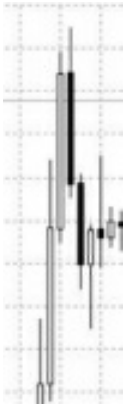


Figure 1- Candlesticks

Candlesticks have two main parts to them: the body and the wick (which extends both above and below the body). First, let's look at the body.

The body is the extent to which prices moved in a given time frame. I'll explain the time frame bit shortly. If the price moved upwards in a timeframe, it results in a bullish candle, and if it moved downwards, it results in a bearish candle. In the image above, bearish candles are depicted by a solid black color, while bullish candles shown in solid white.

### Trends and Ranges

Markets tend to move in one of two ways: either in trends or within ranges. Trends refer to movement in a particular direction, either down or up. Ranges refer to sideways changes where there's no real progress on either side.

## Trends

Figure 2 shows what a trend in the market usually looks.

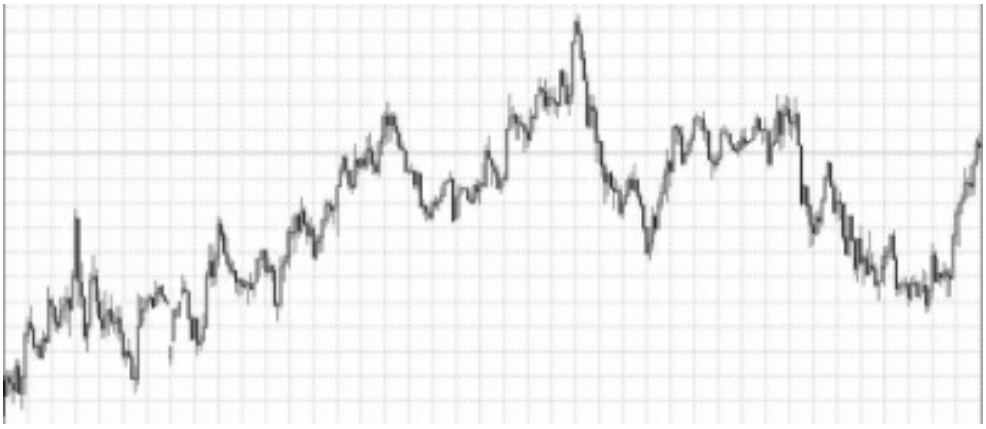


Figure 2: An Uptrend

As you can see the overall movement of the price is upwards when viewed from left to right, but look at the gyrations at order flow price undergoes before it gets there. In fact, before that last push up on the right, it looked as if the price was ready to give up on the uptrend and turn downwards.



Figure 3: Another Uptrend

## Ranges

Ranges occur in two places: Either at the end of a trend or within them as small sideways movements as the trend takes a breather. The order flow characteristics of both types of ranges are very different so let's examine them in more detail.

First, the ranges that occur within trends can see as continuation ranges. In other words, with trend traders are taking a small break from their dominance before pushing higher. You can think of it as a high powered sports car accelerating at top speed that needs to refuel every twenty minutes because it drains itself.

Figure 4 illustrates a classic accumulation range.



The range in figure 4 occurs after the bearish trend. Notice how it has an upward tilt to it before it finally breaks out upwards. It is the thing about such ranges. They don't go perfectly sideways, and you need to view them in the big-picture context to understand what is going on.

## Continuation Patterns

It is a market pattern that signifies a transient disruption of the current trend. While a market pattern is emerging, there is no way to tell whether the trend will continue or reverse. More diligence needs to pay to the patterns used to interpret the demand pattern and whether the market falls above or below the continuity zone. Technical analysts usually suggest believing that the trend continues until it established that it has reversed.

In fact, the longer the demand trend takes to grow, and the higher the price movement within the formula is more important, the shift once the price splits above or below the region of continuity.

Here are the main variations to note:

- A Pennant pattern must be accompanied by a fast up or down gesture that resembles a flagpole. When there isn't a flagpole, it's a ring, not a Pennant.
- A Pennant continues to form a shallow retracement (usually less than 38% of the flagpole). A deep retracement is an example of a triangle rather than a pennant.
- A Pennant is characterized by a persistent upward or downward trend.
- A pennant is a short-term pattern typically done within one to three weeks. The triangle pattern generally takes a lot longer to shape.

## Triangles

Triangles are among the most common patterns in charts used in technical research because they appear regularly as opposed to other patterns. The three most common types of triangles are symmetric triangles, ascending triangles and descending triangles. Such map cycles will last anywhere from a few weeks to several months.

Triangles are known as follow-up trends, meaning that the theme stalls out to gain steam before the break-up. These called triangles, because the upper and lower trend line finally intersects to form a rim, and joining the beginning points on both trend lines completes the triangle structure. The help trend line continues to close the channel until the high-volume demand pressure falls to restart the last cycle. There are three different types of triangle shapes.

## Ascending Triangles

Ascending triangles are bullish continuity trends that form while the upper trend line becomes flat or horizontal, while the lower trend line tends to grow diagonally. It suggests that the upward trend has stopped while the support line reflecting consumers continues to grow, thereby narrowing the gap between the lower and upper trend lines. Eventually, the lower trend line fills in the gap enough to encourage greedy bidders to get off the fence in a bidding binge that increases the price across the high-volume trend line resistance. This breakout action continues the succeeding leg of the upward trend as prices rise to new heights.

## Descending Triangles

The descending triangles are the bearish forms of continuity. They are the reversed variant of the ascending triangle. Shape as a downtrend stands out. The lower support trend line becomes vertical or horizontal while; the higher trend line begins to dip diagonally, closing the distance. The upper trend line reflects sellers willing to unload their position by reducing demand/offer rates. Eventually, sellers become greedy and overload the Dumping Shares pattern support thread. It causes panic as the stock falls in a crash that sets off the succeeding leg of the downtrend, creating new highs.

## Symmetrical Triangles

The symmetrical triangles are the continuity forms of the earlier theme, which can be bullish or bearish. These demonstrated by a dropping upper trend line and a rising lower trend line. It means that all sellers are lowering their bids, while buyers are raising their attempts. Finally, one of the trend lines must break to start the succeeding step of the last cycle. Such triangles will usually have three touch points before the split caused. It means the bottom, upper and lower or top, lower and upper trend line tags before the division that restore the earlier pattern. The more the triangle goes without a break as the price gets closer to the top, the higher the chance of loss.

## Reversal Patterns

If the market reverses after a split, the demand pattern is known as the reversal pattern. Definitions of common reversal trends include:

- Head and shoulders

- Double tops
- Double bottoms

## Support and Resistance

One major part of analyzing the big picture is to understand how support and resistance works. There is a lot of literature on the topic, but unfortunately, almost all of them seem to treat it the wrong way. Before I get into that though, what is support and resistance (s/r)?

As we've seen so far, the market is full of traders constantly negotiating on price, which makes up the order flow.

It happens to be some places on the chart, which are significant and affect the supply and demand of the stock. Taking the example of a physical market, let's say you set up a stall to sell Christmas trees in the middle of summer, it's unlikely you're going to have a lot of demand (unless you're in the southern hemisphere).

However, during December, you will likely do great business. The seasonality of the Christmas tree market directly affects the supply and demand and the prices as a consequence. Similar phenomena take place on the price chart, except instead of seasons of time affecting price, it is prior price levels. When the current price reaches these essential levels, traders become conscious of them, and supply/demand dynamics change.

All of this is a fancy way of saying that there are places on a chart where price bounces (support) and halts at (resistance). You can figure out these levels in advance, and as price approaches them, you can draw conclusions about its behavior and thus place profitable trades. At this point, beginners usually rush out to bring every single s/r level on their charts and end up with more lines than clarity on them.

Let's first look at what S/R levels look.

### Types of S/R Levels

There are three categories of s/r you should look out for and pay attention to:

1. Prior levels where price bounced or reacted from
2. Swing points
3. Higher time frame levels

Let's look at the third point first. It refers to levels which are essential in the higher time frames but don't necessarily show up on the lower ones. For example, if the price is approaching a level, it prior bounced massively from, and if this bounce and level show up quite clearly on the daily, you can bet that this price level is going to be relevant even at the lower time frames. Figure 5 illustrates this phenomenon.

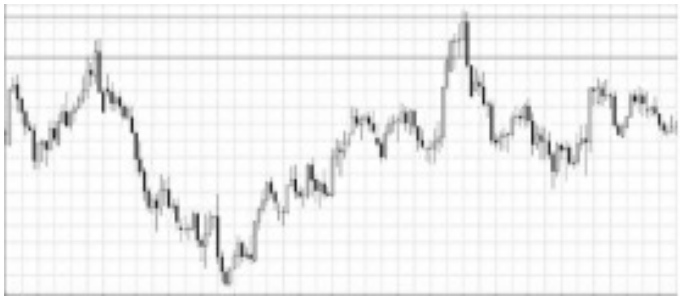


Figure 5 is the four-hour chart of an instrument. Looking at just this chart, if we were to look at just the push into the two horizontal lines at the top of the chart towards the right-hand side, it seems confusing as to why the price would suddenly turn downwards.

**CHAPTER 14:**

# Effective Trading Plan

Trading is a business, and for you to succeed in trading, you have to treat it just the same way you would have treated any other business. As a trader, all does not stop with knowing where the market has the potential to rise or fall or when to pause or reverse, but rather a trader must be able to precisely determine what specific market event is going to take place and act accordingly. While trading, you have a well-written plan that subjected to re-evaluation after the closing of a market. Your plan must be able to change with the changing market conditions. So be an individual who can adjust and improve your trading skills. Your plan as a trader should take account with your personal trading goals and styles. Never use another person's trading plan, as this will not reflect your characteristics. A successful trade must begin by building a perfect master plant. A good trading plan will include the following;

## Skill Assessment

Begin by first assessing your skills, so you know whether you are ready to trade or not. Try to test your trading system by doing trading on paper and determine if you are confident that it will work. Check if you can follow your signals without any hesitation. It would be best if you had an evident mentality that trading in stock markets is like being on a battlefield that involves giving away or taking. Professional traders are always well prepared, and they are ready to take profits and earn interests from those who do not have a plan and mostly give away their money as a result of their costly mistakes.

## Be Mentally Prepared

Assess yourself and check how you feel, are you able to get good sleep at night? Are you feeling pressured by the challenge ahead? It usually advised that when you are not psychologically, physically and emotionally prepared for the battle in the markets; keep off because you are at high risk of losing your investments. It mostly happens when you get angry and act out of emotions. In many situations, traders have a market mantra that gets them

ready before a day begins. It is appropriate that you create the market mantra that will always put you in a safer trading zone. Ensure that your stock trading areas are free from interruptions and distractions because, in any business, distractions are still costly.

## Set Your Risk Levels

Ask yourself the risk you can handle in any trade you make. However, this determined by your risk tolerance and trading style. On any given trading day, your portfolio should have a risk tolerance ranging 1% to 5%. It means that on any trading day if you happen to lose an amount that is in that range, you will get out of the trade. It is always better to fight another day.

## Set Goals

An active trader sets realistic profit targets before entering any trade. You have to assess the minimum risk/reward ratios you can accept. As observed, most pro traders will always not agree to take a deal unless the potential profit that the trade will yield is at least twice or thrice the risk. A good scenario is a case where you have a dollar loss per share in your stop-loss; therefore, your goal will be making a $3 profit. Be precise; ensure that you set your weekly, monthly and at large your annual profit goal either in as a percentage or in dollars of your trade portfolio. Regularly re-assess these goals.

## Do Your At-Home Research

A trader is always informed and up to date person. Before the market opens, always ensure that you have gone through news and other sources to read what are the current trends in the world. Check whether the overseas stock and forex markets are down or up. Check whether index futures like the S&P 500 to know if they are down or up in the pre-market. The index features will provide you with the best ways to gauge the mood of the market before the opening of the market. Also, check through to know the earnings or economic data that are due. It is appropriate that you create a list that will guide you in deciding whether you would like to trade ahead of a critical report or not. We prefer that you avoid taking unnecessary risks and wait for the release of the report. Pro traders don't gamble, but instead, they trade based on probabilities.

## Trade Preparation

Always label the minor and major resistance and support levels regardless of the trading program or system you are using. Ensure that your plan also contains signals for entering and exiting a trade. Your signs should be easily detected (clear visual signal) or discovered (clear auditory signal).

## Always Keep Excellent Records

Professional traders keep clear records. They are interested in knowing why they won or lost a trade. So that they will not make the same mistakes they made when they lost. Always ensure that you write down details like your entry and exit, goals, targets, time, market open and close, resistance and support levels and daily opening range. Always keep a record of comments on why you made a particular trade and the potential lessons you learned. Keeping trading records will help you to analyze your profits and losses for a given system; you will also be able to determine the amounts you lost per trade when you used a particular trade system. You will learn the average time you took per trade with will enable you to calculate the trade efficiency.

CHAPTER 15:

# Tools

For you to carry out day trading successfully, there are several tools that you need. Some of these tools are freely available, while others must be purchased. Modern trading is not like the traditional version. It means that you need to get online to access day trading opportunities.

## Real-time Market Information

Market news and data are essential when it comes to day trading. They provide you with the latest updates on current and anticipated price changes on the market. This information allows you to customize your strategies accordingly. Professional day traders always spend a lot of money seeking this kind of information on news platforms, in online forums or through any other reliable channels.

Financial data often generated from price movements of specific stocks and commodities. Most brokers have this information. However, you will need to specify the kind of data you need for your trades. The type of data to get depends on the type of stocks you wish to trade.

## Day Trading Pricing Charts

Charts are used by traders to monitor price changes. These changes determine when to enter or exit a trading position. There are several charts used in day trading. Although these charts differ in terms of functionality and layout, they typically offer the same information to day traders.

Some of the most common day trading charts includes:

## Line Charts

These are very popular in all kinds of stock trading. They do not give the opening price, just the closing price. You expected to specify the trading period for the chart to display the closing price for that period. The chart creates a line that connects closing prices for different periods using a line.

Most day traders use this chart to establish how the price of a security has performed over different periods. However, you cannot rely on this chart as

the only information provider when it comes to making some critical trading decisions. It is because the chart only gives you the closing price. It means that you may not be able to establish other vital factors that have contributed to the current changes in the price.

## Bar Charts

These are lines used to indicate price ranges for a particular stock over time. Bar charts comprise vertical and horizontal lines. The horizontal lines often represent the opening and closing costs. When the closing price is higher than the opening price, the horizontal line is always black. When the opening price is higher, the line becomes red.

Bar charts offer more information than line charts. They indicate opening prices, highest and lowest prices as well as the closing prices. They are always easy to read and interpret. Each bar represents rice information. The vertical lines indicate the highest and lowest prices attained by a particular stock. The opening price of a stock always showed using a small horizontal line on the left of each vertical line. The closing price is a short horizontal line on the right.

### Advantages of Bar Charts

- They display a lot of data in a visual format
- They summarize large amounts of data
- They help you to estimate important price information in advance
- They indicate each data category as a different color
- Exhibit high accuracy
- Easy to understand

### Disadvantages

- They need adequate interpretation
- Wrong interpretation can lead to false information
- Do not explain changes in the price patterns

## Candlestick Charts

Candlestick charts used on almost every trading platform. These charts carry a lot of information about the stock market and stock prices. They help you to

get information about the opening, closing, highest, and lowest stock prices on the market. Opening price always indicates as the first bar on the left of the chart, and the closing price is on the far right of the chart. Besides these prices, the candlestick chart also contains the body and wick. These are the features that differentiate the candlestick for other day trading charts.

One great advantage of candlestick charts entails the use of different visual aspects when indicating the closing, opening, highest, and lowest stock prices. These charts compute stock prices across different time frames. Each chart consists of three segments:

- The upper shadow
- The body
- The lower shadow

## Tick Charts

Tick charts are not standard in day trading. However, some traders use these charts for various purposes. Each bar on the chart represents numerous transactions. For instance, a 415 chart generates a bar for a group of 415 trade positions. One great advantage of tick charts is that they enable traders to enter and exit multiple positions quickly. It is what makes the charts ideal for day traders who transact volumes of stock each day.

These charts work by completing several trades before displaying a new bar. Unlike other charts, these charts work depending on the activity of each transaction, not on time. You can use them if you need to make faster decisions in your trade. Another advantage of a tick chart is that you can customize each chart to suit your trading needs.

## Charting Software

Each of the above charts is created and viewed using specific software. It can be found in a brokerage firm, although you may also purchase this online depending on the type you want to use.

The software helps you identify the right opportunities by indicating when and how you should start and close positions. They always display the basic patterns required to estimate future changes in stock prices. Using stock patterns, you can also establish continuations as well as reversals in the stock prices.

Chart software is available in many forms. You may find those that are in the way of mobile apps or others that are web-based. Getting the right software enables you to generate correct charts. It explains why you also need to incorporate technical analysis in your trades.

Most day trading chart tools are available free of charge. Some have a forum where you can learn from experienced traders as you use them. They also come with demo accounts that enable you to master day trading techniques before investing your capital in the business.

**How to Choose Day Trading Charts**

Before selecting any charts for your day trading engagements, you must consider some factors. These include:

**1. Responsiveness** – This refers to how quickly the chart can display information about the changing market features. It is the first and most crucial factor you should always check out. Any delay in the way a chart shows data means that you will not receive vital information in real-time. You may end up acting on old data to make your decisions, and this can lead to significant losses on your part. Most charts may freeze or crash when your computer runs out of memory. It explains why you need a fast processing machine for your day trading business. You want to ensure that the whole process remains as efficient as possible. When testing a chart for responsiveness, wait for a time when the stock market is busy. For instance, you may try using the chart during a critical financial announcement or news session. If the chart freezes at this point, then you will understand that it is not the best for your needs.

**2. Cost –** every trader wants to invest in tools that cost less to acquire and maintain. Years back, trading charts used to cost a fortune. It limited the number of traders that could engage in day trading. For instance, traders could buy market data from stock exchanges, and this would also cost a lot of money. Nowadays, all information required for any kind of trading is cheaply available. It means that charts should also not cost as much. There are several alternatives available on the market today for you to select. As you do this, always have the price in mind.

**3. Stability –** a useful chart is one that remains online and up to date all the time. For you to succeed as a day trader, you must stay on the market most of the time. If your chart keeps disconnecting from the stock market or fails to

display market information on time, then it will make you incur more losses. You must, therefore, ensure that you remain connected to the market continuously. If you experience instability as a result of the chart software you are using, feel free to change it.

**4. Type of Indicators –** if you have ever engaged in day trading before, then you understand the importance of technical indicators. Having the right indicators plays a vital role in ensuring you predict the correct price movements in the future. Indicators help you to save a lot of capital. They prevent you from making a significant investment and financial mistakes that may lead to losing your money. You may create your indicators, or you may get charting software that has in-built indicators. If you decide to use your indicators, you must ensure that the charting tools you purchase can be used together with these indicators. If not, you might need to stick to those indicators supplied along with your charting software.

**5. Compatibility with your computer –** before settling for any charts, checks whether it will work well with your current computer resources. It is an essential factor as it will determine whether you will continue to use your old machine, or if you will have to purchase a new one. Some charts require a lot of RAM space. If your computer does not have this capability, you will end up adding more RAM. It translates to more yet unnecessary costs. When you are looking around for a chart, ensure that you check how much resources the charts will need. Most chart packages indicate the minimum requirements you need for the charts to work well. If this not clearly stated, make sure you ask your provider about it so that you do not create a blind purchase.

**6. User-friendly –** a useful chart should be easy to use, read, and interpret. A complicated chart will only make your trading days difficult. Get a chart that simplifies the work of interpreting data. Take your time and research on the available options then choose the best in terms of simplicity and layout. You may consider getting recommendations from other traders. However, this does not necessarily mean that the said chart will work for you. Having a complicated chart can make you lose your confidence. You must, therefore, avoid it if you want to have a smooth trading experience

CHAPTER 16:

# Steps for Developing the Right Mentality to Grow Your Trading Business

The options trading is a great way to earn a profit, but many people find it difficult and complicated. It is suitable for beginners as well as experts. It contains detailed information regarding options trading and how you can perform it efficiently.

It would be best if you got rid of the limiting belief that what you are currently is all you can be. It would help if you had a mindset that promotes growth. Your mindset is your frame of mind. Thus, your mindset determines how you perceived the outside world, yourself and what you can achieve.

Your attitude is a manifestation of your mindset, and it shows whether your mindset is limiting you or helping you grow. A growth mindset is one that encourages making in extra time and effort to improve intelligence and experience to make a better standard of living. On the other, a fixed mindset is one where it believed that all our qualities fixed and born talent is the only fact determining success. This type of mindset limits a person's capacity for learning, while a growth mindset is one where there is no limit to potential or achievement.

## Mental Balance Is the Key

What do we fathom by mental prudence? It is the ability to think indisputably despite when markets are unusual, and the financial expert is under tremendous weight. Usually, this is when the most financial expert will as a rule sway and accept utter contributing failures. Believe it or not, mental aptitude is about the calm that you can keep up despite when the market appears to go against you. There are two extremely perspectives to mental balance. Stock exchanges drive by fear and insatiability. Ordinarily, financial experts will, when all is said in done, get energetic at the most elevated purpose of the market and terrible at the base of the market. Smart contribution connected to doing the cautious reverse. For example, if you had kept up your balance at the market lows of 2003 and 2009, by then, you

would have ended up with surprising assumptions at remarkable costs.

## Find After the Right Framework

If you are more focused on the results rather than the technique, if you are more worried over the closures than about the strategies, by then, you have an attitude problem to contributing. Remember, providing is substantially more of getting the framework right.

- How you recognize stocks
- How you screen stocks
- What are the non-cash related parameters you consider
- How might you impact the channel
- The boundaries of security
- How might you incorporate a motivation by aligning your passage and leave levels

Your consideration should be on fulfilling this methodology, and the results will like this come after.

## Be a Self-Motivated Student

The stock exchange is a remarkable teacher yet to take in the fundamental activities from the market, and you should be an excited observer and a self-motivated student. The best way to deal with gain from the exchange is to listen energetically to what the market is trying to tell you. Endeavor to record the leanings from the market consistently and it can transform into your Bible for exchanging. The embodiment of the issue is that your viewpoint should be that of a self-student. The market isn't the place you will demonstrate the nuances. It is a large gathering of data from which you can liberally draw.

## Be Humble to Recognize Challenges and Your Mistakes

If you don't practice calmness in your practices, then contributing isn't for you. The best financial experts get their assumptions wrong. Attempt to be humble enough to concede that you weren't right and make appropriate necessary changes. If pride drives you to either average the position or outflank the market, by then, you will have a certifiable attitude problem when you are contributing. Recognize that the market has a lot to demonstrate to you and recognize your mistakes. That is the route into the

right contributing attitude.

## An Ounce of Movement Justifies a Pound of Orchestrating

You can make the best of plans within the planning stage before trading. There are a couple of things about the stock exchanges that you can adjust just once you start exchanging with real money. Amusement can take you so far! Grasp a frame of mind that is an action planned rather than delighting a great deal in craftiness.

You need to develop a growth mindset for you to move from your current financial position to one where you are financially free. The characteristics of someone who has a growth mindset include:

- Believing that talent and intelligence can develop through effort and learning.
- Believing that mistakes are a part of education and that failure is an opportunity for learning and growth.
- Believing that failure is a temporary setback and not permanent feedback to ability and talent.
- Embracing challenges and change as opportunities.
- Openly receiving constructive feedback from other people to further learning and development.
- Viewing constructive feedback as a valuable resource of information.
- Viewing the success of other people as a source of information and inspiration.

By opening your mind and imagining the possibilities, you can find fulfillment in not just your financial life but in your life as an entirety.

Developing a growth mindset is not innately ingrained in every human being. It is something that you have to work on, and the best way to do so is to develop habits that will encourage you to think differently and adaptively. Such habits include:

- Developing your mission statement. Success is a personal and individualized process. Therefore, if you would like to be financially free, you have to know how this is meaningful to you and what financial success means to you on an individual basis.

- Being goal-oriented. You need to be clear on what you want out of your future and then work diligently in your effort to earn it.
- Continually learning and seeking new experiences. It allows you to broaden your horizons and gain you more skills to shape your mind into one that is forward-thinking.
- Taking action. You will not get any results by sitting on the couch and dreaming about it. Successful people know this and get up and do something about earning the results that they would like.
- Being health conscious. The body and mind that you have now what you will have for as long as you remain on Earth. Eat right, exercise daily, keep hydrated and keep looking to keep both your body and mind fit enough to enable you to accomplish your goals of financial freedom. Financial freedom will elude you if either of these things starts to fail you.
- Being self-disciplined. Successful people have mastered themselves so that they can control their actions and thoughts. You cannot drag by your wants and desires and expect to be successful in your pursuit of financial security and independence.

**Trading Options to Gain Financial Freedom**

Trading options have the great potential to be a form of passive income. It is the complete opposite of active income, which is what most people engage in. Active income is one where a person invests time in exchange for money.

Passive income allows you to enjoy your time still as you dictate while earning money. It comes to you on automatic even while you sleep. While it usually takes time, effort and maybe monetary input at the beginning, over the long-term, if done right, you can sustain the lifestyle you want if you put forth that investment now.

**CHAPTER 17:**

# Power Principles to Ensure a Strong Entry into Day Trading Options

You need to take it a step further by applying principles that will reinforce that plan. Think of that trading plan as the foundation of your house of success. The policies below are the bricks to develop your home into what you want it to be.

## Power Principle #1 – Ensure Good Money Management

Money is the tool that keeps the engine of the financial industry performing in good working order. You must learn to manage your money in a way that works for you instead of against you as an options day trader. It is an intricate part of maintaining your risk and increasing your profit.

Money management is the process whereby monies allocated for spending, budgeting, saving, investing, and other procedures. Money management is a term that any person with a career in the financial industry, and particularly in the options trading industry, is intimately familiar with because this allocation of funds is the difference between a winning options trader and a struggling options trader.

Below you will find tips for managing your money so that you have maximum control of your options day trading career.

### Money Management Tips for Options Traders

- Define money goals for the short term and the long term so that you can envision what you would like to save, invest, etc. Ensure that these are recorded and easily accessed. Your trading plan will help you define your money goals.

- Develop an accounting system. There is a wide range of software that can help with this, but it does not matter which one you use as long as you can establish records and efficiently track the flow of your money.

- Use the position sizing to manage your money. Position sizing is the process of determining how much money will allocate to entering an options position. To do this effectively, allocate a smart percentage of your investment fund toward individual options. For example, it would be unwise to use 50% of your investment fund on one option. That is 50% of your capital that can potentially go down the drain if you make a loss in that position. A good percentage is using no more than 10% of your investment fund toward individual option positions. This percentage allocation will help you get through tough periods, which eventually happen, without having all your funds lost.
- Never, ever invest money that you cannot afford to lose. Do not let emotion override this principle and cloud your judgment.
- Spread your risks by diversifying your portfolio. You expand your portfolio by spreading your wealth by investing in different areas; add to your investments regularly, being aware of commissions at all times and knowing when to close a position.
- Develop the day trading styles and strategies that earn you a steady rate of return. Even if you use scalping where the returns are comparatively small, that constant flow of profit can add up big over time.

## Power Principle #2 – Ensure that Risks and Rewards Are Balanced

To ensure that losses kept to a minimum and that returns are as high as they can be, options day traders should use the risk/reward ratio to determine each and to make adjustments as necessary. The risk/reward ratio is an assessment used to show profit potential concerning potential losses. It requires knowing the potential risks and profits associated with an options trade. Potential risks manage by using a stop-loss order. A stop-loss order is a command that allows you to exit a position in an options trade once a certain price threshold has reached.

Profit targeted using an established plan. Potential profit calculates by finding the difference between the entry price and the target profit. It calculated by dividing the expected return on the options investment by the standard deviation.

Another way to manage risks and rewards is by diversifying your portfolio. Always spread your money across different assets, financial sectors and geographies. Ensure that these different facets of your portfolio are not closely related to each other so that if one goes down, they don't all fall. Be smart about protecting and building your wealth.

## Power Principle #3 – Develop a Consistent Monthly Options Trading System

The aim of doing options trading is to have an overall winning options trading month. That will not happen if you trade options here and there. You cannot expect to see a huge profit at the end of the month if you only performed 2 or 3 transactions.

You need to have a high options trading frequency to up the chances of coming out winning every month. The only way to do that is to develop a system where you perform options trades at least five days a week.

## Power Principle #4 – Consider a Brokerage Firm That is Right for Your Level of Options Expertise

There are four essential factors that you need to consider when choosing a broker, and they are:

- The requirements for opening a cash and margin account.
- The unique services and features that the broker offers.
- The commission fees and other fees charged by the broker.
- The reputation and level of options expertise of the broker.

Let's take a look at these individual components to see how you can use them to power up your options day trading experience.

### Broker Cash and Margin Accounts

Every options trader needs to open a cash account and margin account to be able to perform transactions. They are simply tools of the trade. A cash account is one that allows an options day trader to perform operations via being loaded with cash. Margin account facilitates transactions by allowing that to borrow money against the value of security in his or her account. Both of these types of accounts require that a minimum amount deposited. It can be as few as a few thousand dollars to tens of thousands of dollars, depending

on the broker of choice. You need to be aware of the requirements when deliberating, which brokerage firm is right for you.

## Broker Services and Features

There are different types of services and features available from various brokerage firms. For example, if an options trader would like to have an individual broker assigned to him or her to handle his or her account personally, then he or she will have to look for a full-service broker. In this instance, there minimum account requirements that need to meet. Also, commission fees and other fees are generally higher with these types of brokerage firms. While the prices are higher, this might be better for a beginner trader to have that full service dedicated to their needs and the learning curve.

On the other hand, if an options trader does not have the capital needed to meet the minimum requirements of a full-service broker or would prefer to be more in charge of his or her option trades, then there is the choice of going with a discount brokerage firm. The advantage to discount brokerage firms is that they tend to have lower commissions and fees. Most internet brokerage firms are discount brokers.

Other features that you need to consider when choosing a brokerage firm include:

- Whether or not the broker streams real-time quotes.
- The speed of execution for claims.
- The availability of bank wire services.
- The availability of monthly statements.
- How confirmations achieve, whether written or electronic.

## Commissions and Other Fees

Commission fees paid when an options trader enters and exits positions. Every brokerage firm has its commission fees set up. These typically developed around the level of account activity and account size of the options trader.

These are not the only fees that an option trader needs to consider when considering brokerage firms. Many brokerage firms charge penalty fees for withdrawing funds and not maintaining minimum account balances—the

existence of costs such as these cuts on options trader's profit margin. Payment of fees needs to be kept to a minimum to gain maximum income. As such, an options trader needs to be aware of all charges that exist and how they are applied when operating with a brokerage firm. It needs to be done before signing up.

### Broker Reputation and Options Expertise

You do not want to be scammed out of your money because you chose the wrong brokerage firm. Therefore, you must choose a broker that has an established and long-standing reputation for trading options. You also want to deal with a brokerage firm that has excellent customer service, that can aid in laying the groundwork for negotiating reduced commissions and allows for flexibility. An option trading is a complex service, and your brokerage firm needs to be able to provide support when you are handling complicated transactions.

A list of reputable online brokerage firms includes:

- E*Trade
- OptionsXpress
- Scottrade
- Ameritrade
- Train Station

You can look up any of these brokerage websites and find that they have a long-standing reputation for quality service. Even though most based in the United States, many accept international accounts.

## Power Principle #5 – Ensure That Exits are automated

Even though I have stated that emotions should set aside when trading options, we are all human, and emotions are bound to come into the equation at some point. Knowing this is imperative that systems develop to minimize the impact of emotions. Having your exits automated is one such step that you can take to ensure that emotions are left out when dealing with options day trading. Using bracket orders facilitates this.

A bracket order is an instruction given when an options trader enters a new position that specifies a target or exit and stop-loss order that aligns with that. This order ensures that a system set up to record two points — the goal for-

profit and the maximum loss point that will tolerate before the stop-loss comes into effect. The execution of either order cancels the other.

**CHAPTER 18:**

# Risk Management

Many experienced options traders find it relatively easy to make money, but holding it can prove harder. As anyone can do, there must be another dimension to the trading option that has been ignored so far; otherwise, any trader would be through. This is the risk management dimension. Most of what professional traders can do is manage risk; play defense and try to keep profits. If a market maker manages to keep a third of the bid-ask range, it will be very successful in the long run. Danger management tension is a key differentiator between amateurs and experts. There are two things to remember when putting risk management in perspective.

- At times, it's fun to "take a shot" when you make a trade. This could have been for some reasons. You might want to start trading with a new strategy. You might have a hunch that you simply can't get the hard evidence to validate. And you might need to swap to help out the trader. It is never necessary, however, to "take a shot" when handling the risk. Risk management is far too important to take the chance. You just don't need to have any patience for errors.
- Professional option trading is not about making significant, unforgettable trades. It is about making low, predictable gains and keeping risks under control.

We should take care of the risks in the order of their risk. We will split the risks into three groups.

## Primary Risks

- Inventory
- Delta

## Secondary Risks

- Gamma

- Jump risk
- Vega (including skew and calendar risk)

## Tertiary Risks

- Correlation risk
- Rho
- Dividend risk
- Buy-in risk
- Early exercise
- Strike risk
- Pin risk

## Stock Risk: Dividends and Buy-In Risk

Let's have a look at the case when a corporation declares a special dividend. Assume the stock is at $100, so we're long 1,000 out of a one-year 80 strike order. Assume the interest rate is negative and the conditional uncertainty is 30%. The sum of this option is 23.53. When the corporation pays a dollar dividend the interest of the call will decreases to 22.73. We're suddenly wasting $80,000. Remember that this is not going to support being hedged in the underlying. The dividend is a gain to those who hold the shares, not to those who own the options.

It doesn't happen very often. So when it does, it can be a huge concern. In 2004, Microsoft paid a special dividend of $3.08 as the shares traded $29.97. Beware of businesses sitting on a lot of funds. It is, of course, entirely probable to be harmed if we have a long stock and the planned dividend is that.

Nonetheless, the business option tends to be better at forecasting this. Generally, the rumors of payout cuts are beginning to surface well in advance of the real reduction and the option sales are continuing to be sold at a lower cost. Finally, regular dividend yields appear to be much smaller than special dividends, so the cut in the normal dividend will not be as expensive as the declaration of a special dividend.

## Pin Risk

Pin risk arises as the underlying interest reduces to the effect interest of the

option at expiration. Anyone short of these options is exposed to pin risk. The main risk is that it is difficult to determine whether or not the decision will be exercised.

Note that since the risk of a pin is triggered by the probability of a given investor having an unplanned role in the underlying stock that he eventually has to liquidate; it is not a matter of cash-setting options. There we earn cash for the amount of any expiring shares. Cash does not need to be unwound or liquidated until the economy is reopened. Nevertheless, cash-setting options have their expiration wrinkle.

## Forward Risk

For most options, as the in-the-money option expires, we will obtain the corresponding position at the bottom (a long position for long calls, a short position for medium calls, a short position for short calls and a medium position for short calls). As we're keeping the offset position as a buffer at the start, we're not going to have a net advantage until expiry.

That is not the case for cash-setting options. Here we usually have a future or another traded commodity, but at the end of the day we obtain cash. As a result, our expiry status does not balance our shield. If we don't want to be in a directional role, we need to flatten our options for deltas in the month to come.

## Expiring at a Short Strike

As the expiration approaches, the utility of most Greeks as risk controls declines. Vega and rho are now obsolete, as they move towards zero, as time to expiration tends towards zero. More specifically, the gamma and theta become pretty confusing.

At the time of expiration, gamma is infinite if our preference is at-the-money and zero otherwise. That's because we're precisely at a point where the option switches from being equal to the underlying situation to being useless. The delta will transform from one to zero when the underlying price passes the hit. To avoid incurring huge hedging costs, the investor will postpone worrying about persistent delta hedging and then wait until he is fairly confident that the delta option has exceeded its expiring value and then hedge. This isn't as troubling as it seems, because it is expected to entail a change of less than a buck.

Theta is also becoming unreliable. Less significance of theta starts earlier than gamma, sometimes yielding very odd numbers many days before the expiry date. The main issue here is that theta has been configured to display the deterioration of option interest over one day. Normally, this is a good thing as it transforms theta into a number that is directly relevant, however close to its expiry; it becomes irrational when theta shifts too rapidly over one day.

**CHAPTER 19:**

# Key Influencers on Options Prices

It is not possible to price an option unless an individual understands what constitutes its value. This is because a single option trade can morph into a complex process of adjustments, multiple orders, and several strategies. In the broader sense, options prices are made up of two key components, i.e., time value and intrinsic value.

Time value is any amount that is more than the intrinsic value of the option. The intrinsic value, on the other hand, is the difference between the underlying price of an option and its strike price. Therefore, options that have intrinsic value are those that are in-the-money. This can be summarized as follows:

1. The intrinsic value of a call option = underlying price minus strike price.
2. The intrinsic value of a put option = strike price minus the underlying value.

Traders can use options for several different strategies, from high risk to conservative, to achieve objectives that go beyond standard directional strategies. Therefore, it is important to learn and understand the key influencers on options prices in different scenarios. Changes in any or all of these influences will affect the value of an option.

## Valuation Models

The valuation model used will affect the price of the options. There is a difference between theories of options pricing and options valuation. For example, the Black-Scholes model and similar pricing models attempt to determine the value of an option in a way that makes it consistent with the price of the underlying security or asset. These theories assume a business environment where a riskless, dynamic arbitrage strategy with the option and stock or asset is possible, thereby determining the option value as an aspect of the arbitrage portfolio.

According to this ideal market environment, if the model value differs from the option's value, the option value can be traded against the number of shares of stock to identify a position that is relatively free of risk. Constant rebalancing will help keep the position free of risk until the expiration date of the option. However, applying these models in real-world trading can prove to be quite challenging, especially if an individual is not adequately experienced in the field of options trading.

In trying to apply any of these theoretical valuation models, a trader will conclude that none of them works as expected. The strategy outlined above, which is supposed to be costless and riskless in theory, is not in practice. This is because positions cannot be continuously balanced when markets are closed. Also, failing to rebalance continuously will lead to transaction costs. These theories also depend on stock volatility, which cannot be predicted exactly.

That said, it is important to understand that these theoretical valuation models offer some valuable assumptions about pricing that are important for options traders to understand; therefore, they should not be taken for granted.

## Why Care About How Options Are Priced

In the real world, options prices are determined by supply and demand, like the price of anything else. It is important to understand how options are priced to make smarter and more profitable plays and decisions. To understand how they are priced; options traders need to take note of the following pricing considerations and assumptions based on common valuation theories:

1. The underlying price of an option is normally distributed
2. There are no restrictions to short-selling
3. All securities are desirable, and there are no taxes and transaction costs
4. No arbitrage opportunities are risk-free
5. During the life of the derivative asset, there are no dividends
6. For all maturities, the risk-free rate of interest is the same and constant
7. Prices can trade in a continuous manner

Before pilots are allowed to fly, they need to understand what makes an

airplane liftoff. In the same way, newcomers into the options trading business need to understand the concepts behind options pricing before investing their hard-earned money into the venture. It can be boring having to learn all the mathematics behind options pricing, but it is worth all the time, effort, and resources spent. Those who neglect to learn how options are priced are likely to fall for shortcuts, which might prove costly in terms of money, time, and effort spent.

It is incredible how some people will take the effort and time to read through the manual of their new Digital TV, but they do not take the time to learn as much as possible about options trading, even with large amounts of money at stake. If options trading were easy, everybody would be doing it. The secret to success is learning how they work and how they are priced. All successful options traders had to learn the math behind options, including pricing methods and key influences on options prices.

Once prospective options traders learn these things, they can better determine whether this field of business is for them. They need to understand volatility backward and forward, up and down, and understand factors that make or lose money. Essentially, they need to understand the influencers behind every single option price. This is the best bit of advice for novice traders.

## Main Influencers on Options Prices

### Underlying Asset Price

This is the first influencer on the price of an option. For each underlying asset, there are several options at varying price increments, also referred to as strike price, which is the predetermined price that will apply if the option is exercised. For example, if a trader owns company XYZ stock at $100 per share, he or she could purchase the 100-put since that is where he or she could sell his or her shares in case the company’s stock drops in value and he or she decides to exercise the option.

However, an options trader does not have to hold or own shares in a company to trade options; however, the share’s strike price will have a significant impact on the option price. For example, for calls, if company XYZ’s current stock price is $100 per share, any option that has a strike price higher than $100 is considered to be in-the-money, which is the opposite for put options.

Out-of-the-money options, on the other hand, have no value at expiration.

Therefore, if they have no value at the date of expiration, an individual might wonder why it has a value before expiration. It is because the price of stock changes, and there is a good chance that the out-of-the-money options could become in-the-money if there is still some time remaining before expiration.

**Volatility**

Another factor that goes into options pricing is volatility, which refers to the magnitude of a security's price fluctuations. Extreme volatility leads to extreme price swings and subsequently more risk for stock owners. Different securities have different levels of volatility; however, this fluctuation in price is not constant. This means that a stock that currently has low volatility might become more volatile in the future.

Fortunately, it is much easier to predict volatility than stock price; therefore, options traders need to place themselves on the profitable side of volatility. However, its effect on an option price is one of the most difficult concepts for novice traders to grasp. To determine its effect, a trader needs to look at past stock price movements over a certain period, which is referred to as statistical volatility or historical volatility.

CHAPTER 20:

# How to Be a Successful Trader

## Monitoring the Trend

Trends are a graphical measure of the actual activities that are taking place in the day trading market.

Any trader closely following up the trend makes him or her informed and accurate in his or her levels of predictions and chances are that winning may be their middle name. They are able to purchase when the prices are high and short sell when they drop. Analyzing trends has several assumptions in that, if there are continuous cases of rising prices, possibilities are that they will constantly happen and vice versa.

Remember that day trading is not about heroes and losers; it is all about patience and persistence. Honey, try to be patient and persistent.

## News on Trading

News always comes in two ways; good news and bad news. Well, good news on day trading always gives the traders and brokers a huge motivation to purchase prices at good rates. On the other hand, when bad news comes in, the traders are given an opportunity to short sell prices. This kind of strategy can be used as a great move in making huge amounts of profits at a particular season and induce high volatility rates.

## Scalping

Scalping takes advantage of the small kind of prices that happen drastically during the day trading sessions. This kind of mechanism involves getting engaged so quickly and so fast and then leaving right away.

## Contrarian Investing

This kind of strategy describes the assumption that prices will go up and most probably reverse and then drop. The contrarian buys during fall or short sell during the rise periods. The attitude in this kind of strategy defines that the whole expectation idea is to subdue to change and that things are to head in a reverse kind of direction.

## Financial management

Capital is so lucrative in any kind of income-generating activity. There is always going to be several wins and losses. Not to sound so risky, most of the traders will not input 2% of their capital in any line of trade. Be careful in whatever you consider as an investment; money loss is ever an option too.

Also, there may be cases where brokers demand high rates of commissions, do not fall into that trap. That is going to cause you big time. Consider the rates of commissions demanded by brokers in the first place because too many expenses in commissions can definitely incur low rates of profits basically meaning that losses will be incurred.

## Proper Time Management

Day trading is a journey. A certain market trading journey, meaning that for it to be called a journey, a particular process is established. A certain planned time span is encouraged. Monitor everyday trading move that occurs and will occur for it makes you learn and experience all about day trading. Good things take time, mastering the day trading occurrences is quite an investment. Remember those good investments imply good rates of profits.

## Consistency/ Stability

Another point to add, day trading is quite logical. Day trading cannot be analyzed by fear or even greed. Mathematical approaches have to be considered. Set strategies have to be put in place too! Examine every logical operation bound to happen during day trading so as to possess certain clear stability. Once stability has been established, expect some big-time profit rates and an excellent reputation.

## Timing

The trading market becomes volatile every single trading day. Experienced traders have mastered the moves and so they are quite sure about what steps to take once they get to read the structures. As a beginner, do not be quite in a rush to predict. Take one or more time to examine every single trend and get your desired prediction. Do not be too slow though, you may end missing so much.

## Momentum

This kind of strategy defines revolving around new sources and also

identifying the substantial trending moves at high stake. You basically should basically maintain your current position, be alert with the reversing signs and face a totally different direction.

## Strong Focus on One Particular Market

Many traders become overexcited and want to trade with all markets. This should not be the case; you will end up being confused not knowing which trade to focus on. It is normally healthy for the business when you decide and focus on one trade, be good at it. Focusing on many trades at a go will make you lose.

## Trading pivots

Trading pivots come in when you buy low at the end of the day and you sell at the high end of the trading day. Once you get to master these tactics, chances are that you will be an expert in comprehending the volatility of the market and therefore declare yourself successful using this kind **Risk Control**

For beginners, it is highly recommended that they engage in trading infrequently as a way of avoiding too many risks. The essence of this is to help them master their moves and learn a lot. Day trading is not just about profits only; it is about taking each day as a learning trading progress. Predict the trends at least after some minutes and not just seconds. I am familiar with the adage that declares that, commit many mistakes to learn highly, but honey, this is some real cash being retrieved from your pocket; you can become poor any minute. Slow but sure steps are highly recommended. Take each trading day as a lesson. With this, tricks and knowledge are so equipped and with no time you will be so okay.

## Passive Position Management

A novice day trader is prone to adjust their target and stops abruptly because of being controlled by certain emotions. These kinds of emotions are caused by the sudden updates of the figures and trends on the screen that keep changing with time. This is so confusing for the beginners and, after all causing them to alter their predictions hence leading to a great downfall. Only highly experienced and confident day traders can analyze the updates because they may actually know what they are doing.

For the novice day traders, leave the targets and the stops on their own, and learn how you would passively control all these. Reach for some paper material and sketch and assume how the aftermath would be without interfering with your active trends. Do some in-depth examination and comprehend why every move is happening. In the end, compare what you would have affected your trading account if at all you altered the last trends. This is a learning process. Do this for quite a while and within no time, day trading becomes your all-time income-generating hobby. Yes!

## Protect Your Capital

Losses are normally involved in almost all businesses despite that try your best and protect the capital of your business. This can be achieved by shunning from all unnecessary risks that come along in businesses. This will definitely bring success to your business.

### Risk reward ratio of 3:1

Comprehending the proper 3:1 risk-reward ratio is so important. This kind of ratio reward encourages a trader to lose small and then win big despite the frequent times you lost on the trading platform. The moment you gain some wide experience, the risk-reward ratio gets higher and higher, meaning that you are slowly advancing and enjoying some good profits. This is the kind of measure we need to strategize to grow as traders.

## Patience and Persistence

Plan your trades and then trade your plans. This kind of strategy defines the behavior where most traders do not really trade daily. They have this kind of paradoxical behavior where they just check up on the trends without necessarily acting up because of the fear of outlining the wrong prediction. Well, this is not really a way of learning. Day trading calls for patience and persistence where several wrongs did are part of the journey and learning happens a lot through that. Plan carefully your trades and then predict, see how this goes. Be patient and persistent in every move you make. After all, good things always take time.

## Hard work

Day trading requires you to be hard working to be successful. It is not like the entertainment business which you can joke around with. It needs maximum practices into trading and discipline. You have to be trading frequently and

stay updated on the stock price fluctuations.

The above strategies help to improve time factors, skills, financial management operations, to grow as a person, risk management and most importantly, you get to learn.

**CHAPTER 21:**

# Buying Calls

Buying calls is a more advanced form of training than selling covered calls. But it's not that complicated, so let’s dive in.

- **What you’re actually buying**

Remember that one option contract is for 100 shares, so you'll need to be able to buy 100 shares of the stock in order to exercise your right to buy.

Also, remember that an options contract has a deadline. If the stock price fails to exceed the strike price by the deadline, you’re out of luck and will lose whatever money that you invested in the premium. In relative terms, the premium price will be small so chances are if you are careful and not starting out by buying large numbers of options contracts, you won’t be out that much money.

- **Your Goal Buying Options Contracts**

The goal when purchasing options contracts is to buy a stock at a price that is lower than its current market value. In other words, you want the stock price to be significantly higher than the strike price so that you’re enjoying significant savings in purchasing the stock. When evaluating your options, you’ll need to take into account the added costs of the premium paid plus commissions. In some cases, commissions can be substantial so make sure you know what they are ahead of time so that you choose a good strike price and exercise your options at the right time.

- **You’re a trader, not an investor**

You may be mentally conditioned to think in terms of investing. An investor wants to build a diversified portfolio over a long time period that they believe will increase in value over the long term. A trader operates in the same universe but has different goals. You are after short term profits – not investments. You are not going to hold this stock. If you were interested in holding the stock, you would simply buy it at the lower price that is currently

on offer. Your goal is to be able to buy at the strike price when the stock has increased significantly in price and then sell it immediately so that you can pocket the profits.

Let’s take an example. Suppose that XYZ Corporation is currently selling at $30 a share. People are expecting the stock to rise, and some people are really bullish about its short-term prospects. If you are an investor, your goal is to get the stock at the lowest possible price and then hold it long term. If you are using strategies like dollar cost averaging, you might be buying a few shares every month without paying too much attention to what the price is specifically on the day you purchase. In any case, as an investor, you’ll simply buy the shares at $30.

As a trader, you’re hoping to cash in on the moves of XYZ over the following couple of months. You’ll buy an options contract, let's say its premium is $0.90 and the strike price is $35. Your cost for the 100 shares is $90.

Then the stock price shoots up to $45. Since it passed the strike price, you can exercise your option to buy the shares at the strike price. You can buy them at $35 for a total price of $3,500. But remember – you’re not an investor in for the long haul. You’ll immediately unload the shares. You sell the shares for $4,500 and make a $1,000 profit. After considering your premium, your profit is $910. It will go a little bit lower after considering commissions, but you get the idea. The purpose of buying call options is to make fast profits on stocks you think are going to spike.

It’s hard to guess when the best time is to really buy call options. Obviously, you don’t want to do it when a major recession hit. The optimal time is during a bull market, or when a specific company is expected to hit on something big, that will suddenly increase its value in the markets. A good time to look is also when a recession hits, but it passes the bottom out period.

## Benefits of Buying Call Options

Call options have many benefits that we’ve already touched on earlier. In Particular:

- Call options allow you to control 100 shares of stock without actually investing in the 100 shares – unless they reach a price where you get the profit that you want.

- Call options allow you to sit and wait, patiently watching the market before making your move.
- If your bet doesn’t work out, you’re only going to lose a small amount of money on the contract. In our example, if XYZ loses value, and ends up at $28 per share instead of moving past your strike price of $35, then you’re only out the $90 you paid for the premium.
- Call buying provides a way to leverage expensive stock.

## What to look for when buying Call Options

Now let's take a look at some factors that you’ll be on the lookout for when buying call options. You’re going to want to be able to purchase shares of the stock you’re interested in at a price that is less than the price you think it will go up to. You need to do this in order to ensure that the stock price surpasses the strike price. Of course, it’s impossible to know what the future holds so this will involve a bit of speculation. You’ll have to do a lot of reading and research to make educated guesses on where you expect the stock to go in the following few weeks or months.

Second, you’ll need to take into account the cost of the premium when making your estimates. For the sake of simplicity, suppose that you find a call option with a premium of $1 per share. You’re going to need a strike price that is high enough to take that into account. If you go for a stock that is $40 a share with a $1 premium and a strike price of $41, obviously you’re not going to make anything unless the stock price goes higher than $41.

Remember that exercising your rights on the options contract is not a path toward immediate money. You’re going to have to turn around and sell it ASAP in order to profit. Of course, when you sell is a judgment call as is when you exercise your right to buy. You’re going to want to wait until the right moment to buy, but it’s impossible to really know what that right moment is. This is where trading experience helps and even then, the most skilled experts can make mistakes. For a beginner, the best thing to do is exercise your right to buy the shares and then sell them as soon as they’ve gone far enough past the strike price for you to make a profit and cover the premium. If you wait too long, there is always the chance that the stock price will start declining again, and it will go below your strike price and never exceed it again before the contract expires.

## Open Interest

If you get online to check stocks you're interested in, one of the measures you will see is "Open Interest." This tells you the number of open or outstanding derivative contracts there are for that particular stock. Every time that a buyer and seller enter into an options contract, this value increases by one. What you want to do with open interest as a trader looking to make real cash from call options is to look for stocks that show big movement in the number of open trades. You're going to want to look for increasing numbers. This means that other traders have an interest in buying call options on this stock and that they're expecting it to go up in value in the near future.

Of course, you're going to want to take an educated approach to this. Simply getting online and going through random stocks will be a waste of time; it might take you weeks to find something.

You're going to want to prepare ahead of time by keeping an eye on the financial news. Watch Fox Business, read the Wall Street Journal, and watch CNBC and read any other financial publications that are to your liking. Find out what stocks the experts are talking about and which ones they expect to make significant moves over the few weeks and months. Keep in mind these people and experts often make mistakes, so you're only using it as a guideline. You also don't want to focus solely on looking for stocks that are going to make moves; you want to keep up with company news. You need to keep your ears open for news such as the development of a new drug or the latest electronic gadget. Sometimes you might find out news about that before the stock begins attracting a lot of interest in the markets.

### Tips for Buying Call Options

- Don't buy a call option with a strike price that you don't think the stock can beat.
- Always include the premium price in your analysis.
- Look for calls that are just in the money. These are likely to bring a modest profit.
- Call options that are out of the money might give you an option for a cheaper premium.
- However, the premium shouldn't be your primary consideration when looking to buy a call option. Compared to the money required to buy the shares and the potential profits if the stock

goes past the strike price, the premium is going to be a trivial cost in most cases – provided, of course, the strike price is high enough to take the premium into account.

- Look at the time value. If you're looking for larger profits, it's better to aim for longer contracts. Remember that with any call option you have the option to buy the stock at the strike price at any time between today's date and the deadline when the stock market price exceeds the strike price. Longer time frames mean you increase the chances of that happening. Even if the price goes a little above the strike price and dips down, with a longer window of time before the deadline, you can wait and see if it rebounds. Remember if it never does, you’re only out the premium.
- Start small. Beginning traders shouldn’t bet the farm on options. You’ll end up broke if you do that. The better approach is to start by investing in one contract at a time and gaining experience as you go.

**CHAPTER 22:**

# Common Mistakes of a Trader

As a new options trader, it is very common to easily feel overwhelmed or obsessive in your pursuit of this business. Even though the risks of such a business are relatively low, making mistakes can be very costly.

## Mistake #1 - Not Having a Trading Plan to Fall Back On

Unfortunately, many people enter the arena of options trading out of desperation or greed with no plan as to how they will make this a successful venture. They are looking to make a quick buck and do not think things through because they are not thinking rationally. This leads to them trading with their emotions rather than with logic. There is no place for emotions and feelings in options trading. While gut instinct has a time and a place in options trading, being led by anger, sadness and other emotions can lead to heavy financial losses.

There are many factors that need to be considered if an options trader wants to make maximum profit. Therefore, going in half-cocked, desperate or greedy will only lead to failure and unnecessary losses. To make the best out of this business venture you need to have a sound trading plan before you do a single thing. Your trading plan will serve as your comprehensive decision-making guide for all your trading activities.

## Mistake #2 - Choosing the Wrong Expiration Date for Options

Having expiration dates that are too short or too long can be costly. While you develop your trading plan, you will definitely come across the factor of how you will select expiration dates for your options. Each option is unique and this requires setting up a system whereby you can select proper expiration dates so that profits are maximized every time.

When developing your options for choosing an expiration date, relying on a simple checklist system can help. Here are a few questions that you can add to this checklist so that you choose the best expiration date for that particular transaction:

- How long is this trade likely to play out?
- Does this timeline align with my own goals?
- Do I have adequate liquidity in the timeline to support my trade for the duration of the contract?
- What is the historical and implied volatility of the financial market?
- Have I factored in the Greeks like delta and theta?
- How will my particular strategy relate to time decay and profitability?

## Mistake #3 - Not Factoring in the Volatility of the Financial Market

Even the most stable financial markets can have days where they take off in an unexpected direction. This affects the value of the associated asset and so the options trader needs to be aware of this. There are also traders who only look at the reactivity of the financial markets during one-time period and not others and so do not rely on historical data or focus on forecasting the future. These are costly mistakes.

Ensure that the factoring of market and stock volatility are always a consideration even after the option has been finalized. Volatility in the market is inevitable. Look at the stock market and you will see how quickly it moves up and down over the short term. It is important that you do not get carried away with short-term fluctuations. Know your strategy before you invest so that you are not distracted by short-term fluctuations.

## Mistake #4 - Not Having a Sound Exit Plan

This is a trading strategy that many novice options skip in their eagerness to get started. While they may have a strategy in place for entering options trading, they forget or are ignorant of the fact that an exit strategy is just as important.

One of the biggest reasons for developing an exit strategy is to prevent emotions from clouding your judgment during that time when tough decisions need to be made. As a result, make the plan before things hit the fan to take out that emotional aspect.

There are two factors that need to be considered when creating an exit plan for an option. They are:

- What is the absolute point you will get out of the trade if things are not working out in your favor?
- How will you take profits if things are working in your favor?

Many experienced options traders place a percentage cap on the trade to know at which point they will back out of the trade if things are not working out in a profitable way for them. While it is normal for the value of the transaction to fluctuate between 10% and 20%, most experienced traders will cut their losses if their fluctuation goes between 30% and 50%.

This fluctuation needs to be also considered if things are working out in your favor. If the transaction has increased in value between 30% and 50%, you need to be thinking about how you can protect your profits or how to ensure that you do not lose any money through that option.

Your exit strategy can also be time-based. You may decide that pursuing a certain option is only worthwhile for you for a certain time period and not beyond.

Having a target profit can also be the foundation of your exit strategy.

## Mistake #5 - Not Being Flexible

Never say never with options trading. Many traders get stuck in their ways when it comes to options trading and refuses to try out new strategies. Remember that having a growth mindset is necessary for success in any part of life and this philosophy also applies to trading options.

You have to be willing to keep in the know when it comes to options and also be willing to learn and try new strategies. That does not mean try any strategy you come across. It simply means that when you do come across new strategies; assess them carefully to see if they have the potential to fit into your trading plan to help you accomplish your goals.

## Mistake #6 - Trading Illiquid Options

Liquidity describes how quickly an asset can be converted to cash without a significant price shift. The more readily the asset can be traded, the more liquid it is. Having a liquid market means there are ready and willing active buyers and sellers.

Options that are highly liquid have certain characteristics. Being high in volume is one such characteristic. The higher the volume of options, the

easier they are to enter and exit. Having the ability to move in and out of a contract is a huge advantage to an options trader. Being easily adjustable is another characteristic. Seeking out option with these characteristics makes the job of an options trader that much easier

Examples of highly liquid assets attached to options include stock and ETFs.

On the other hand, there are illiquid options and establishing such a contract is a mistake that many novice options traders make. There are not easily moved or converted into cash. They drive up the cost of doing business because of this characteristic. This makes the trading cost of that option higher and thus cuts on the trader's profits.

To avoid this, trade options that is higher in liquidity. For example, stocks that trade less than 1 million shares per day are liquid. Pursue such options at the beginning of your career as an options trader. Also, seek options with a greater volume and that are easily adjustable.

## Mistake #7 - Not Factoring in Upcoming Events

The financial market is volatile and unpredictable. Some things cannot be foreseen. However, there are others that can be foreseen and it is the job of the options trader to keep these things in his or her foresight.

There are two major common events that an options trader needs to know in advance and these things are the earnings (the measure of how much a company's profits is allocated to each share of stock) on the associated assets as well as the dividend payout dates in these assets if they apply. Not knowing these future events can mean losing out on extra payout like these because no action was made to ensure that the trader had a right to them.

In the case of dividends, payment on the associated assets could have been collected by the trader if only he or she had the foresight to purchase that asset before those payments were processed.

To ensure you get such extra earning, you need to be on the ball of the date of such events. Do not sell options that have pending dividends and avoid trading in the earning season to avoid the common high volatility associated with that time.

## Mistake #8 - Waiting Too Long to Buy Back Short Strategies

You need always to be ready to buy back short strategies early in the game.

Never assume that profits will continue to come in just because you are having a good period. The market can change any time and so your profits can be lost easily if you fail to react in a proper manner.

There are many reasons why some options traders wait to do this and they include not wanting to pay commissions, trying to gain more profits out of the contract and thinking that the contract will be worthless upon expiration. Thinking in such a manner is a mental trap that can lead to financial losses.

To avoid this, consider buying back your short strategies as long as you can keep at least 80% of your initial gain from the sale of that option. If you enter an out of money positions, reduce the risk by buying back.

## Mistake #9 – Getting Legged Out of Position

Legging out means that one leg of the option closes out and essentially becomes worthless to the trader. The leg gains an unfavorable price that does not benefit the trader. This does not automatically spell the death of the option made up of several legs but it can expose the trader to loss.

Legging can be performed in several types of options including straddles, strangles and spreads. These types of options can be enhanced by multiple legs and gain the options trader a leg up. However, the complexity of using the legging technique can elude even experienced options traders. The timing and order of executing legs make this a delicate process that needs a fine eye for the market. Therefore, this is a technique that must be attempt only after a trader is confident in his or her experience, knowledge and success rate.

## Mistake #10 - Trading Options on Complicated Assets without First Doing Proper Research

In their overexcitement, many new traders like to go for complex assets because they believe that this where the big bucks are. Even if this is true in some cases, if the trader does not have a good grasp of how the asset works in its market, then he or she will fail to implement the right strategies to gain profits. Never just jump into an option. Do your research first. Also, as a newbie options trader, it might be best to get your feet wet with more common options rather than jumping into the deep end of the pool.

**CHAPTER 23:**

# Advantages of Option Trading

Although options trading began a long term ago, it has a huge reputation as a risky investment that only experts can understand. However, for individual investors, options trading can be useful in various aspects.

Recently, options trading has received wide recognition, while many investors try to stay away from it because they believe it is sophisticated and hard to understand.

Others, who have given it a try, have had a bad experience because of their poor background in trading. This situation has led to major problems with many discouraging others from taking part in trading.

Furthermore, terms like “dangerous” or “risky” have been attached incorrectly to options trading by various financial media and public figures in the financial market.

Notwithstanding, it is vital for investors not to conclude based on this bad experience without getting the other side of the story. This will be impartial and inappropriate to conclude that an option trading is risky and dangerous suddenly.

You will understand four key advantages you will benefit as an investor trading options. With these advantages, you will understand why many people have considered it risky and dangerous.

## Cost Efficiency

Trading options gives you great leverage. Because of this, an investor can get an option position that is similar to a stock position but which offers better cost-saving opportunity. For instance, you buy 100 shares of a $40 stock, which must result in a payout of $4,000. Nevertheless, if the investor decides to buy two $10 calls (remember each contract is equivalent to 100 shares), the total cost will be $2,000 (2 contracts x 100 shares x $10). The $10 is the market price. From this, the investor has an additional $2,000 to use for whatever purpose.

Although it is not as easy as you see it because the investor must select the right call to buy to make such profit.

For clarity, let us use another example. Assuming you want to buy Apple's share because you anticipate it will rise within several months. So, you bought 150 shares of Apple while it is trading at $120; the total cost would be $18,000.

Rather than spending so much more, you would decide to select the option imitating the stock closely and purchase the August call option with a predetermined price of $60, for $16. To get a position as the same as the 150 shares aforementioned, you have to buy two contracts. This will bring your investment to $32,000 (2 contracts x 100 shares x 16 current market price), which opposes the $18,000 you could have invested.

## Less Risky

In Options Trading, you will find situations where buying the options is riskier than you owning equities. Nevertheless, sometimes, you will find when options can help you reduce your risk.

However, this depends on how you choose to use them. Options trading are less risky for traders because they don't require much financial commitment when compared to equities.

Options are safer than stocks because they are the most reliable aspect of hedging. If an investor buys stock, he has to place a stop-loss order regularly to protect this position.

The purpose of putting the stop order is to stop losses when it reaches its predetermined price set by the investor. In as much as this looks good, the issue is that it depends on the nature of the order.

For instance, you decide to buy a stock at $150 but don't want to lose anything below 15% of your investment.

So you decide to place a stop order at $145. This order will be activated once the order sells at or below $145. Peradventure, you woke up the following morning after seeing the stock closed at $151 last day and heard that the CEO of the company wasn't truthful concerning the earning reports.

Furthermore, there were rumors of embezzlement in the company with the expectation that the stock will open around $120. Once this happens, $120

will be your first trade below the stop order you placed at $145. Immediately, the stock opens, it will first sell at $120. The stop-loss order you activated wasn’t there to “save” your investment when you need it.

Peradventure, you trigger the put option to protect your investment, it couldn't have affected you. Options are different in the sense that they don’t shut down even when the market closes.

They provide insurance every day of the week. Stop orders cannot do this for you. This is the reason why options are a more reliable aspect of hedging.

Additionally, instead of buying the stock, you could have used the stock replacement strategy, which allows you to buy an in the money call option rather than buying the stock.

With certain stock options, you can mimic an equivalent of 75% of the stock performance; however, this cost one-quarter of the stock price.

If you had bought the $145 predetermined price call rather than the stock, your loss would have been limited to the amount you spent. If the option cost you only $6, your loss would have been only $6 rather than the $31.

## Higher Profitability

There is no need to use a calculator to find out if you are making the same profit as you are losing money because options trading come with higher returns.

The example below will clarify that.

Using prior example, we will make a comprehension of the percentage returns when you bought the stock at $50 and $6 respectively.

Let’s assume the option has a delta of 70. This means the price of the option will change 70% of the stock’s price change.

Peradventure, the stock rose to $5; the position of your stock would return a 10% increase.

## Strategic Alternatives

The last benefit to Options trading is the alternative investment opportunity it offers. Options trading offer a flexible tool and allow investors to recreate their options in many ways.

These positions are called synthetics and offer investors with different means of achieving the same investment goals for their trading.

Despite the fact that synthetic positions are regarded as advanced in options trading, they offer various strategic alternatives for investors.

For instance, most investors use brokers who charge a margin when the investor decides to short a stock. However, some investor doesn't use brokers that offer a margin.

Using options in your trading as an investor allows you to trade the "three dimensions" of the market if you like.

**The Bottom Line**

From the advantages below, you can agree that those who say Options trading is risky and dangerous are only one-sided.

Frankly speaking, the opportunity in options trading is limitless, especially if you undertake to time to understand every aspect of option.

Options trading signify the dawn of a new era for anyone looking to diversify their business or investment. Don't be left behind when you can be at the forefront.

**Disadvantages**

You may be thinking, are there any disadvantages to options trading? Well, anyone who tells you no is only deceiving you.

An option trading is a short-term investment, and there are bound to be some disadvantages. For instance, if you mistakenly make a wrong prediction on a particular trade, within a couple of months, you will lose money instead of waiting for years.

Another disadvantage is taxes. You think because you trade online, you won't pay tax. You got that wrong because everything you do on the Options trading market require you paying tax.

However, in certain rare cases, you may not pay. Therefore, include that in our business plan and ensure to fill your IRA form before you start investing.

Additionally, you won't have any certificate of deposit when you trade options, unlike shares. The only thing you get when trading options is your paid rights, and this doesn't prove ownership of the option.

Besides this, the issue of uncertainty is a turnoff for most investors. It is scary to invest in something you have no knowledge about. Because of this, most investors take the time to understand everything about the market and investing. With that knowledge, they can easily turn a loss into a profit. The important thing is to know the strategy you want to use. Endeavor to start small; take only trade you can afford to lose. Options' trading is like learning how to drive.

At first, everything looks scary and impossible. However, with time behind the wheel, you begin to perfect your driving skills. Over time, you start using a single hand to turn the steering; options trading works in a similar fashion. To be at the top, you have to practice, learn, and unlearn what you have learned.

**CHAPTER 24:**

# Portfolio Construction

Your investment portfolio can include equity stocks, bonds, shares in mutual funds, ETF's, Index Funds and so much more but must contain adequate cash reserves. These cash reserves should cover up to three months of your living expenses ranging from housing (rent or mortgage), utilities, insurance, food, transportation costs (auto loans, gas, parking, etc.) and any other regular expenses. Building this emergency fund should be a high priority for everyone. It is a hedge against life's adverse events like illness, accidents and job loss. These are risks the investor, and everyone else faces every day. Note that this list is not exhaustive since it could contain many more items like commodities and futures. However, these are less common for people interested in trading options.

- Equities
- Bonds
- Cash and cash equivalents
- Options
- Fund shares
- Retirement accounts; 401K, IRA, 403B, etc.
- Real Estate

As we said above, start with accumulating cash for your emergency fund. For most people, as life goes on, they take on more responsibilities and thence have more recurring expenses, which must be covered by the emergency fund. For example, when children start school, monthly costs will increase for all of the associated school expenses.

How you go about building your investment portfolio depends upon your income, your stage in life and your individual risk tolerance. Investing in options entails risk, especially if you are not skilled at it. There is lots of money to be made with options, especially in an unstable market when stocks are going up and down regularly. However, losses will also occur when trades are not well planned or based on bad information. We recommend getting on a website that allows you to practice options trading. We have

included some here for your interest. These sites give traders a balance of 'artificial' money and facilitate trading in both stocks and options. Although these are digital dollars, simulation traders have banked millions of paper dollars as they practice trading.

We also recommend that a young investor with a strong interest in trading can allocate as much as 30% of their portfolio to options. Nevertheless, remember, options trading is not a 'do it and forget it' investment activity. One of the most important features of options is the time value of money. You can get income and gains by timely trades, but options require regular attention. You can't neglect them. And, their value goes all the way to zero at expiration. The options trader must pay attention and move when she reaches her return goal.

Young investors have many years ahead to build their portfolios. Even if they don't make money on every trade, proper options trading can reduce losses while gaining the opportunity for profits.We strongly recommend that for any investor, the portfolio includes a cash balance at least equal to 3 months of living expenses. This emergency fund, of course, does not go into your options account but rather, as separate, easily available savings investments like CD or short-term paper. The level of your options for an investor who is mid-career and is building an estate can allocate maybe 20% to options. This will keep the investor engaged but will reduce the risk level. Of course, for an experienced investor, good incomes can be had from options trading. This income will build your portfolio for all kinds of investments besides options. We will illustrate portfolio allocations in the case examples. Here are several examples of portfolio allocations as an illustration. We start with a young investor who is willing to accept a significant amount of risk but wants good returns to build her net worth quickly. Which equities and bonds the investor selects is not part of this discussion and depends on the experience and preference of the investor.

## Young Investor with High-Risk Tolerance

Notice that we have shown cash at 10%. This amount may be higher or lower depending on the individual case and the amount in the portfolio, the net worth. Remember the three months of expense rule.

## Mid-Career Investor Looking for Growth

An investor who is mid-career, stable in their job and has a number of years left to earn income; the investment allocation pie might look different. This investor is interested in building her net worth rather than generating income for living expenses, vacations, and so forth. This investor will favor good, dividend-paying stocks and will arrange for dividend reinvestment programs. Under a DRIP or dividend reinvestment program, rather than collecting the dividend in cash, the dividend is automatically used to buy more stock. This plan acts like a stock dividend.

## Mid-Career Investor Portfolio

For the mid-career investor, it is reasonable to increase bond holdings for security and return and trim the options allocation from 30% to 20%. By this time, the investor has a lot of experience in options trading and can be very savvy in making trade decisions and the total net worth is substantially larger than a young investor, so although she allocates a lower percentage for options, the total amount is likely larger.

## Ready to Retire or Retired Investor

The retiree or soon to be retiree needs more security since there is only limited future earning potential. This portfolio focuses on bonds for security, equities with high returns through dividends but still maintains an allocation for options trading. In all three charts, we include that cash component. Remember that our use of 10% is just a suggestion. The actual amount depends on the portfolio size and the life stage of the investor.

And, in the case of an older investor, we recommend committing a maximum of 10% of your options provision for any one deal. Not all trades will turn out right, and you will have losses. By limiting each trade to 10% of your options allocation, you can absorb the occasional loss.

**CHAPTER 25:**

# Technical Analysis Fundamentals

By now, you have all of the information that you need to prepare yourself for getting involved in stocks and protecting yourself against the risks that you are going to face. With this information, you can feel confident that you are going to be making the best decisions possible while minimizing the amount of risk that you are taking with each investment. This means that you are now prepared to get started with learning new information that will actually contribute to you making your first trade, for real.

The very first thing that you have to do before every single trade deal you make is technical analysis. Technical analysis ultimately means that you are doing your research on the stock market, and on the specific trades that you want to get involved in, so that you can feel confident that you are entering and exiting the trade at the right time. With this information, you know when the best time to buy is and when the best time to sell is, which will ultimately support you with creating the best possible decisions for your trades.

In here, we are going to discourse over the fundamentals of getting started with technical analysis specifically relating to the trade market. I encourage you to begin applying this information as you follow the charts and technical analysis platforms now, in order to start understanding how proper stock market research is conducted. As you do, begin making guesses as to when the best times to buy and sell would be and see if you are right. This is an excellent way to begin practicing how this particular form of research works and building your confidence in your ability to pick the best times to get involved. Remember, when it comes to the stock markets, everything is a guess. As a trader, it is your job to make the best educated guess that you possibly can be based on the research that you have conducted to ensure that every trade you enter will probably earn you profits.

## Earnings per Share and Price to Earnings Ratios

Earnings per share (EPS) are a calculation that identifies how much profits are earned per share in any given company. Paying attention to the EPS allows you to identify how profitable a company is, and therefore how much

you are likely to earn if you invest in their stocks. Calculating EPS ratio for a company works by calculating the net income divided by the available share. When it comes to investing, the EPS is one of the most important metrics as it helps you calculate the price to earnings (P/E) ratio, which indicates how much you are likely going to earn in your deals. Most senior traders, or people who have been doing it for a long time, will often pick which investments they make largely based on the EPS and P/E as these two numbers are the best indicators of how well a stock is likely to perform.

P/E ratios are slightly different from the EPS as they do not just measure the profitability but they also measure the relative value of a company's shares in a more direct comparison. This way, rather than measuring it against the general market, you are also measuring the company against its own industry and other companies that will be directly competing with that particular company. Typically, when a company has a high P/E ratio this means that it is anticipated to have massive growth in the future, which means that you are likely to have a stronger chance at earning profits from it if you invest now. Companies with a lower P/E ratio are less likely to grow in the future, or may even drop in valuation, meaning that it is not ideal to get involved with these particular companies. If a company has no P/E ratio at all, they are losing money which means that you should stay away from that company and avoid getting into any deals with them whatsoever.

Creating the P/E ratio works by calculating the market value per share divided by the EPS. There are two types of EPS metrics that are going to help you create your P/E ratios, which will allow you to come up with your forward and trailing. The forward P/E uses future earnings guidance to determine how much a stock is likely to grow, which will give you the opportunity to measure your risk/reward ratio from it.

Trailing P/E shows the past performance of a company and helps you determine the probability of its future growth. In the stock market, past performance does not always indicate future performance, but it can help you generate an idea of a stock's patterns so that you have a greater opportunity of making better choices with your investments.

When it comes to using P/E to decide what investments you should make, always focus on forward P/E first so that you are confident that the stock that you are investing in is likely to have higher earning potential. Trailing P/E

should only ever be used to help you confirm the likelihood of forwarding P/E, so that you can feel confident in your investment. You should never invest in a company that has a strong trailing P/E but a low future P/E, as this could leave you at a high risk potential that may result in catastrophic losses with your investment.

## Debt to Equity

The debt to equity ratio, or D/E ratio, is used to help you identify a company's financial leverage. It is important to know the D/E ratio of a company before you invest in it, because this tells you how well the company is performing financially, and its ability to cover all of its outstanding business costs in the event that a downturn occurs within the company. Companies with lower D/E ratios are less likely to be able to afford to repay shareholders who get involved in stocks, which could result in you enduring a major loss if anything happens with the company.

D/E ratio is calculated by dividing the total liabilities of a company by its shareholder equity. Every single company that is available with stock shares to be traded on the stock market will have a public financial statement that declares these numbers so that you can create this ratio.

Each industry is going to have its ideal D/E ratio, which means that before you invest in anything, you should research the ideal D/E ratio for the industry that you are looking into investing in. Getting a clear understanding of what favorable D/E ratios should look like in that industry will help you determine what ratios are going to be most favorable for your investment.

## Short Interest

Short interest refers to the number of shares that have been sold short or sold before a stock has the potential to decline in value, but has not yet been covered or closed out. When a stock has a high percentage of short interest, chances are existing traders believe that the stock is unlikely to generate enough value to make it worth the trade, which may indicate that they are exiting the trade before they can lose out on too much. Short interest can be both a positive thing and a negative thing, as it can indicate that a stock is underperforming, but it can also lead to a sharp and sudden increase in earnings for that particular stock, too.

When it comes to the stock market, virtually everyone is trading with the

same theory of buying low and selling high. Stocks that have an increase in short interest sales and drop exponentially, but that still have positive P/E ratios and D/E ratios, are the most likely to have a sharp increase after a significant number of short interest sales because they serve this trade strategy. With this scenario, the increase in stock becoming available for sale through short interest trades means that there is also likely going to be an increased interest in buyers. If you buy at the right time, you can grab the stocks while they are still low and before the sharp increase occurs due to the increased interest in the stock itself.

If the stock has an increase in short interest sales, it means that the traders invested in that particular stock have become more bearish, which means that they believe that the stock is going down and it is not worth the investment. If there are a decreased number of short interest sales, this means that the current traders invested in that stock are more bullish and that they believe that the stock is retaining value or even increasing in value, so they are less likely to want to sell anything. When there is a massively increased number in bearish traders, or those selling, it may indicate that the stock is due for an upturn meaning that it could be a good time for you to get invested in that stock. Pay close attention to stocks that take massive downturns, especially when their supporting numbers are positive, as this is generally the best time to get involved in a trade with that particular company.

**CHAPTER 26:**

# Understanding Trading Orders

As a trader, you will need a broker through whom you will place, buy or sell orders for any asset. You can decide whether you are going to buy or sell any stock, then place an order accordingly on your online trading platform.

Usually, exchanges use a bid and ask process for fulfilling orders placed by traders. This means that there must be a buyer and seller to complete a single order, and they both should agree on the price. For example, if a trader wants to buy a stock at X price, there must be a seller willing to sell that stock at the same price. No transaction can occur unless a buyer and a seller agree at the same price.

The bid is the highest price a trader is willing to pay to buy an asset and ask the lowest price, that trader is willing to accept to sell that asset. In stock markets, the price moments are directed by a tussle between the bids and ask prices. These prices keep constantly changing. As trading orders get filled, the price levels also keep changing, which is reflected in the technical charts.

While day trading, one must keep in mind this bid and ask process, because this will determine at what price the order will be executed. When markets are moving slowly, the change in price is also slow and one can wait to get the trading orders filled at the desired price. However; when markets are highly volatile and sees big up or down moves happen within split seconds, the order may get filled on a higher than expected rate. This can cause losses to day traders as the price changes quickly and can reverse by the time their orders are filled.

Different markets have different methods of matching buyers' and sellers' prices. These methods are called trading mechanisms. There are two main types of trading mechanisms; order-driven, and quote driven. In markets that use quote driven trading, a constant stream of prices (quotes) is available to traders. These prices are decided by market makers; therefore, these types of trading systems are better suited for over the counter (OTC) markets or dealers. There is a considerable spread between the bid and ask prices, which

constitutes the profit of the deal maker or the market maker.

Exchanges mostly adopt the order-driven trading mechanism. Here, orders are executed when buy orders match with a sell order. In this type of trading mechanism, dealmakers are not involved.

## Mechanism of Trading Orders

In the electronic day trading, orders are placed on the online trading platforms. These orders are the trader's instructions to the broker, or the brokerage firm, for buying or selling some security. When you are trading stocks, you place orders to buy or sell a stock, which is fulfilled by the brokerage firm with whom you have a trading account. The ease of electronic trading has given traders the freedom to initiate various types of order, where they can use different restrictions in order conditions. By these restrictions, traders can control the price and time of order execution. Such instructions help increase traders' profits or restrict the losses.

In systems, where the trading mechanism is order-driven, traders can also control the timeline of any specific order. For example, a trader can place an order which will remain open until its execution. Traders can also place orders that last till the end of the session, or one day, or a specific time.

Understanding how trading orders are placed, and how they can impact one's day trading, is important because it can affect once profit or loss in day trading. For example, a novice day trader may not be aware of the slippage between the bids and ask prices. There is always a difference between the bid and ask price is called slippage. It occurs in every trade, and every trader faces it, whether buying, selling, entering a position, or exiting from a position. It is also called the spread between bids and ask price. So, when you place an order to buy a stock at $4, the slippage may increase its cost to $4.05 when your order is filled. Likewise; when you exist any position, you place an order to sell at $3, but the slippage causes it to get filled at $2.98, thus chipping away at some of your profits.

Professional traders advise beginners to stay away from highly volatile market situations because the slippage risk increases during those choppy moments. For example, on a central bank policy declaration day, stock prices become highly volatile and move with big numbers within seconds. In such a situation, the ordered price and executed price may be different, causing

financial harm to the day trader. From the outside, such big moves may look tempting to day traders and make them greedy, thinking they can make big profits with such huge price moves. But the reality is, the slippage between the bid and ask price is equally big and it can change considerably by the time the trading order gets filled, or immediately after the order is executed, creating a loss-making situation for the trader.

## Different Types of Trading Orders

Most individual traders use a broker or dealers' trading platforms to place their trading orders. These platforms provide the facility of placing various types of orders, which are helpful in trade planning. Placing an order on the trading platforms is instructing the brokerage firm to buy or sell a financial asset on behalf of the trader. Based on the execution type, here are some common order types:

- **Market Orders**

These orders do not have any specific price. A market order is an instruction to the broker to complete the trade at the available price. Because there is no fixed price, these orders almost always get executed unless there is some liquidity problem. Traders use market orders when they want their trades executed quickly and they are not bothered about the execution price.

These orders are good if there is not much slippage between the bids and ask price. But a big slippage can cause loss to the traders, especially those who day trade in options.

- **Limit Orders**

Traders place limit orders when they want to buy or sell stocks (or other assets) at a specific price. For example, if Apple shares are trading at $220, and traders expect the price to dip low, they can place a limit order to buy the shares at $219 or lower. Limit orders can be used for both buying and selling. Traders use these orders when they are trading with technical levels and are sure of price touching those levels. For example, if a trader has bought Apple shares at $220, and thinks it can touch $222, he can place a limit order to sell his shares at that higher price. When the share price reaches that level, his sell order will get executed.

- **Stop Orders**

These are also known as stop-loss orders and make a part of traders' money management techniques. A stop-loss order can stop the trade from going below a specific price, thus restricting losses for the trader. These orders are used for both buy and sell trades. The price specified in a stop-loss order is called stop price; and once that price is reached, the order is executed as a market order.

- **Day Order**

This order is valid only in the same trading session where it is placed. If the specified price is not achieved by the end of the session, the order is automatically canceled. This saves day traders from carrying forward their orders to the following day.

## Preparations for Placing an Order

When preparing day trading plans and strategies, many day traders forget to pay attention to how they will place orders for trades. Believe it or not, the simple act of placing a trading order can have a big impact on the success of your day trading business.

Successful day traders always give importance to order processing techniques and plan their trades around the stock price they will focus during the trading. The trading plan itself means planning at what price you will enter a trade and when you will exit. Online trading platforms provide many methods of placing your orders around your planned trade prices. You can prepare charts of your trade, mark entry, and exit points and place orders for both trades together, or separately.

A good trading plan always includes trade entry, exit, profit booking, and loss stopping points. The margin trading facility provided by various brokerage firms also includes placing a stop-loss order together with the primary buy or sell order. This ensures that your trade will never suffer a loss beyond a specific price level. Here is an example to illustrate this:

Suppose a trader has bought stock 'A' at $10. He is expecting the price to go up, so he'll make some profit. However, anything can happen in stock markets and in case the price reverses, he wants to restrict his losses to $3 only. So, he will place a stop-loss order at $7, which is $3 below his buying

price. If the price keeps moving up, the stop loss order will remain inactive. In case, the stock price falls, nothing will happen till it reaches $7, at which time the stop loss order will be triggered, and automatically sell the stock he has bought.

A stop-loss order makes sure that even if the trader is not available to check prices; his position will be safe till a certain price.

Similarly, traders can also use limit orders to exit their positions after earning a profit. Taking the above example once again, if a trader has bought a stock at $10, and believes that the price will move up to $15; he can place a limit order to sell at $15. When the price reaches his target ($15), it will be automatically executed, and the position will be squared off with a profit of $5.

These examples show that day traders can use a combination of different order types for money management and managing the risk and reward ratio. By technical analysis of any stock chart, day traders can find at what price the stock will make a big move, and be ready to place their orders near that price level.

**CHAPTER 27:**

# Candlestick Charts and Patterns

Candlestick charts weren't known in the West before the 1980s when they were introduced for the first time. However, Japan used this method for centuries, which at the same time makes Japan the place of origin of the candlestick method. As we already have seen before, these charts show basically the same information as the bar chart that was used in our countries' way before we started using the Japanese system. The reason that the candlestick charts became so popular in such a short amount of time is the fact that it is easier to understand and it uses simple yet innovative body illustration that helps the investor seeing every change at a glance.

Let's recap some of the basic characteristics of the candlestick as the general pattern. Firstly, the total length of the candle represents the trading range for the predetermined period. The body of the candle is connected to the distance between the prices known as the closing price and the opening price. The difference in color shows if the price went up or down for a certain period. The length of the candle also portrays the volatility of the price and the sum of the candle and the ‘’body’’ of the candle can be viewed as the progress that was made for one day. If the chart shows that the candle's ‘’body’’ is short, it means that the closing and the opening prices were close or similar. If that is the case, we can say that the buyers and the sellers were in balance. Contrarily, the long candle ‘’body’’ means that one side is stronger than the other and that it decisively pushes the price in the direction that suits them.

## Types

When it comes to the candlestick chart, we can say that there are regular candles and then there is Doji. Doji is a special candle which body is just a horizontal line. This line represents closing prices and opening prices, which in case you have Doji are equivalent. Traders from Japan consider Doji as a very important indicator because it represents a balance between those who buy and those who sell on the market. Also, this kind of balance often leads to the conclusion that the price trend will change, thus reverse. Remember, on the chart, the horizontal line can be placed anywhere on the wick. It doesn't

matter if it is the top or the bottom or even in the middle of it. On the other hand, we have regular candles that most frequently have short bodies. If the wicks of the candles are high, we are talking about “high wave” candles. The meaning of these candles has similarities with the Doji.

If the candles have long bodies that will indicate that the trend of the price is strong. If your chart has candles without any wicks, it means that you got Marubozu. Marumbozu is an indicator that shows that the trades were only made in the range of the opening and closing prices, thus no trade was done outside of that range. This is a very strong indication, which means that the market was strongly pushing the price only in one direction. Patterns on the candlestick charts can be made out of one or more candles. These patterns mostly show a reversal even though that some patterns indicate continuation rather than dramatic change.

If you build your interpretations only on the ideas like longitude of the wicks and strength of the candle bodies etc., it can turn into indecisiveness. That is why you have to be extra considerate and to keep in mind that the interpretation of any chart, indicator or pattern can’t be done by copy-pasting observations. Interpretation depends very much on things such as the trend of the price before this period and the direction of its trends.

## Patterns

- **Hammer**

When it comes to ideal signals, in Hammer that signal is represented with a small body. Its wick should be two times longer than the body regardless of the day being up or down for the price trend. Hammer sometimes signals that the trend of the price will reverse. The way to confirm such an assumption and make it actionable is to wait for the following day and see if the price is going to increase. If the price starts raising it means that your interpretation of trend reversal has been confirmed. This pattern works because of many traders’ panic, and if the price is down for some time they would sell at any price. If we try to express this situation in the candle chart it means that the wick is going to be pushed down. However, smart investors come in and they buy which pushes the price up once again. These trend reversals can last through the whole day and even keep up happening the following day too.

- **Hanging Man**

The Hanging Man is a pattern that looks the same as the Hammer; the only difference is that it comes in an uptrend. Just like before, we search for a change in the price trend on the following day so we could confirm our estimation of the trend's reversal. The psychology, in this case, is that traders mostly decide to take profits. That way they push the prices down. Still, some of those who are new on the market see this as their chance to buy. That way they push the price back up. In any case, this candle is considered to be weak. As a reflection of this pattern, it appears that traders have a hunch that this means that the trend is over so the selling starts to rise again in the following few days.

- **Inverted Hammer**

Once you see the diagrams for the first two candlestick patterns you will realize that the inverted hammer also has similar characteristics. There is also certain psychology behind its signaling and we will briefly explain it: Once the downtrend starts weakening and several traders have second thoughts they start buying in which pushes the prices up. Sellers also come back in the game which means that the price will close down. However, if the price starts increasing during the following day than the conclusion is that the weakness of the trend made buyers buying even more while pushing up the prices and that way the uptrend started.

- **Shooting Star**

The last but not the least in the set of four related candle signals is the pattern known as the Shooting Star comes which comes in an uptrend. Everybody knows that beginners or novices if you prefer, tend to buy on the top. Shooting star demonstrates simply the exuberance that causes the traders to see the high wick that appears when novices enter the market. The traders who notice this are usually those who appeared thinking that it is time to sell. Just like in every other pattern above, the only way to confirm this is to wait up the following day and to determine if that was really the signal that shows that the trend will reverse.

- **Bullish Engulfing**

This is a pattern that consists of two candles and it is graded as highly

probable. When in a downtrend, the first candle pressures that the selling continues. The pressure is strong enough to allow the succeeding candle to open up at an even lower price. But those investors who are smart see an opportunity here and they start buying on the second candle in this case. This makes the price to grow and launches it above the limit of the period. This is one of the numerous proofs that the real power is in the hands of the buyers and that there is a high possibility that the trend will reverse.

- **Bearish Engulfing**

Has the same concept as bullish engulfing. The thing is that sometimes uptrend can stretch so bad that the opening price can even go higher than the current price in the candle. Smart and experienced investors usually decide to sell on these occasions. The length of the candle, in this case, shows that the trend can be reversed from an uptrend to downtrend due to the weight of an opinion.

Piercing Candle is a pattern that represents a strong bearish candle that is in a downtrend. This candle with another, following candle, opens up at a price that is lower than the current one. However, the candle is rallying to have the finishing price, which has the same trading range as the earlier day. This pattern can be seen as a signal for the trend reversal and the reason for that is piercing candle as an indicator that sellers are feeling hopeless. When the low prices go even lower it is an opportunity for those who consider themselves to be smart investors to start buying and to push prices strongly up.

Dark Cloud Cover is a pattern that has entirely the same characteristic as the piercing candle pattern. The only difference is that the dark cloud cover is in an uptrend.

- **Bullish Harami**

This pattern has a name that originated from the Japanese word Harami that means “pregnant.” As the name suggests, the reason for this is that according to them, these candlestick patterns have a resemblance to the pregnant women. If you happen to encounter the bullish harami, it means that the market had a lot of active sellers. However, the other candle indicates that the current price became higher. If the second candle finishes up and provides buying enough pressure, you can see it as a signal that there is going to be a change in the price trend. As usual, the following day is a confirmation

checker.

- **Bearish Harami**

When a pattern reaches an end of an uptrend there can be a candle that demonstrates exuberance that some might see as naïve. When the other period opens up and the price is lower continuing to go lower as the day goes by, we can say that it indicates second thoughts in buyers. The most probable income of this situation is that the selling will continue regularly and that everything will be resolved once when the price goes into a downtrend.

## Candlestick Pattern Rules

These are the main or the most popular ones that you might find useful during your trading career. Like we mentioned once before, nowadays numerous programs and servers can calculate, estimate and identify any pattern that you are interested in. Keep in mind that trading should never be done based on one strategy or just one resource, which is why we wouldn’t recommend that you start trading relying only on the information you gather through the candlestick principle for example. Remember, the validity of the pattern depends on the right trend in which the pattern needs to work in. Also, many other indicators have to be taken into consideration.

CHAPTER 28:

# The Concept of Moneyness

The term moneyness is used in Options trading to describe the financial status of an Option. An option is said to be in the money — or profitable to exercise if its strike price is lower than the price of the underlying asset. For example, it would be in the money if you could exercise your rights to buy the underlying stock at the strike price to sell on the market for a profit immediately.

However, the concept of moneyness has a few different aspects to it.

Remember that the strike price is the locked-in price that the underlying stock can be bought or sold for, if exercised. Therefore, the strike price is an important factor in determining the Options value as we can compare the Options strike price with the actual market price of the stock. This relationship between the strike and actual market price determines the intrinsic value of the Option and will be a determining factor:

## At the Money

This is when the strike price and the stock price is the same and so it applies to both calls and puts

Near the money: As it is unlikely for the strike and actual price to exactly match any close to equality is termed near the money

## In the Money

This is when the strike price in a call option is below the price of the actual stock. On the other hand, with a put option, the strike price is in the money when it is above the stock price

## Out of the Money

This is when a call option strike price is above the stock price. With a put option, the strike price will be out of the money when it is below the stock price

As you start to practice and gain experience working with quote tables and

orders, you will become very familiar with these terms. This is because you will soon become accustomed to using the relationship between the stock price and the strike price to determine if there is any intrinsic value in the Option. A thing to remember is that only options that are “in the money” will have any intrinsic value.

Indeed, an option will be said to be in the money only if it is profitable to exercise. It is out of the money if it is not profitable. This means that just because the strike price is above or below the actual price doesn’t automatically make it in the money as we must always consider the cost of the premium. Also, the relationship of the underlying price to the strike price depends on the type of option involved.

In other words, a long call is in the money if the strike price is less than the underlying stock price. Therefore, you would make a profit if you to exercise your rights under the option, by buying the underlying asset and then selling it at the higher market price. On the other hand, if the underlying stock price is less than the strike price, then the option is out of the money.

The following table offers a neat summary of it all.

**The Moneyness of an Option**

| Position | In the Money | Out of the Money |
|---|---|---|
| Long call | Stock > Strike | Stock < Strike |
| Short call | Stock < Strike | Stock > Strike |
| Long put | Stock < Strike | Stock > Strike |
| Short put | Stock > Strike | Stock < Strike |

Stock = current market price of the underlying stock (variable)

Strike = the locked-in strike price of the Option (fixed)

As we can see the holder and the writer of the Options always have an opposite position except when the strike price and the underlying price are the same, then the option is at the money or near the money. This is regardless of the type of option whether it is a put or a call, or whether you are going long or short.

Furthermore, the moneyness of an option is not affected by the style of the option. What this means is that even with a European option, which can only

be exercised at the expiry time, it can still transition many times during that period often jumping between being in, out, or at the money at any given time.

## Expiration and Exercise

Options expire at regular intervals determined by the expiration date, which is the date the option expires. Most options expire on the third Friday of a given month. However, some high-volume weekly options have expiration dates every Friday. The last time to trade the option is at the close of the market immediately before the option expires. Some European options close earlier (sometimes on a Thursday but the closing time would be specified for the option, and most broker apps track the options expiry dates and send a notification so you'd know):

The option period is the term used to denote the valid time until expiration and it starts the moment the option is made (written) and ends on the expiry day. However, there are ways to stay in the position if you want to beyond the expiry date. If you want to maintain the position you can roll by closing your current – soon to expire - open position and simultaneously make a new position at a different strike price or expiration.

## Exercising your Rights

To exercise is the term used to cash in an option but the vast majority of options are never exercised. But should you want to and you have a call option giving you the right to buy shares of ABC at $100 per share, and the stock is trading at $105, all you have to do is notify your broker that you want to exercise the Option.

When exercising your option to buy the stock you will need to have the funds in your account. Almost all brokers will require that you buy – pay for the stock – before you sell. This means that you will need sufficient funds in your account before you can exercise your position. Some brokers allow you to turn around and sell the stock immediately and you may get away with selling the stock before you pay the broker, but that type of free-riding - is frowned up.

## Delivery and Settlement

When a call option on a stock is exercised, the writer has to transfer the shares to the option buyer's account at the strike price. If the writer is not

covered by already owning the stock, they must go and buy the shares in the open market.

However, if there is an option for cash settlement, then the person whose option is profitable receives a cash transfer payment. This is more commonly used in trading in index options.

## Extrinsic and Intrinsic Value

Options have two primary sources of value. The intrinsic value is the option's strike price in relation to the price of the underlying asset. An option has intrinsic value only if it is in the money. If it is not in the money, then there is no profit so no value.

Time value, on the other hand, is known as extrinsic value. This value is the difference between the option's price and the amount of intrinsic value — the amount it is in the money. The logic behind this is that the amount that an option is in the money is its intrinsic value, the profit should you claim it today.

But the option can be worth more today than the profit you would realize if you exercised it. This is an important consideration when you are hedging as you do not want to exercise the option – take the profit. Instead, you value the time remaining on the insurance value of the option. This additional time value cannot be ignored as it explains why people will often hold onto options when they are profitable to exercise. Of course, they may just be riding a trend and hoping to end up with a larger profit.

Nonetheless, it is important to realize that Options do have both extrinsic value and intrinsic value. The more you understand the components of an option's price, the better you can value the option relative to your needs.

## Weighing Option Costs and Benefits

There are many advantages to trading using options, but you don't get all those benefits without taking on-board some element of risk. A notable risk that you have to accept is that options have a limited lifespan as they are limited by expiry date. Now there are clear strategies that you must have in place when handling this risk such as having an exit strategy. For example, your choices are, trade the option during the timespan of the option, expire the option on or before the expiry date or simply let the option expire.

However, there can be a big problem with just leaving options to expire. For example, if the option is in-the-money at expiration, your broker may well automatically exercise/assign the option. The problem here is that by exercising the valuable option they have effectively converted a low-cost option position into a high-cost stock position, which you may not want or be able to afford.

## Risk of Leverage

Another significant risk to be aware of is that of leverage. Because Options don't cost much as stock as they are simply a contract, this means that they experience disproportionately larger percentage price gains in reaction to the far more expensive underlying stock's very small price movements. The huge benefit of this is that it results in large percentage gains when the underlying stock moves in the anticipated direction by even a small amount.

The downside though is that it also results in a 100% wipe-out of the investment if the stock moves by even the smallest amount in the wrong direction. This is not necessarily an issue with beginners or at least it shouldn't be as the risk manifests itself mainly through trading too large a position size. However, you need to be aware that as beneficial as leverage clearly is, it can also be a double-edge sword, so be aware that leverage is a risk that needs to be addressed. One simple way to nullify or minimize this level of risk is to keep your position size small.

Two other option cost factors should be considered:

- Costs associated with the trading process
- Cost of exercising the stock

By understanding the basic cost structure for an option, you can see how options also add through leverage an element of risk, despite the fact that options also provide leverage at a reduced risk.

To complicate the matter a little is the fact that Option prices are partially based on probabilities. For stock options, you want to consider the likelihood that a particular option will be in-the-money before or at expiration given the type of price movements the underlying stock has recently undergone. The way an Option is valued takes into consideration 6 factors; Stock price, strike price, time to expiration, interest rates, and dividends but there is a wildcard factor — volatility.

**CHAPTER 29:**

# Brokers

For selecting brokers, you have many options available. There are full services, discounts, online, etc. Understanding the differences between them and selecting the ones best suited for your purposes is crucial if you wish to succeed. Another area that a lot of beginners ignore and then receive a rude lesson in is the regulations surrounding options trading.

There aren't too many rules to comply with, but they have significant consequences for your capital and risk strategies.

## Choosing a Broker

Generally, there are two major varieties of brokers: Discount and full service. In fact, a lot of full-service brokers have discount arms these days so that you will see some overlap. Full service refers to an organization where brokerage is just a part of a larger financial supermarket.

The broker might offer you other investment solutions, estate planning strategies, and so on. They'll also have an in-house research wing, which will send you reports to help you trade better. Besides this, they'll also have phone support in case you have questions or wish to place an order.

Once you develop a good relationship with them, a full-service broker will become a good organization to network. Every broker loves a profitable customer since it helps with marketing. A full-service broker will have good relationships in the industry, and if you have specific needs, they can put you in touch with the right people.

The price of all this service is you paying higher commissions than average. It is up to you to see whether this is a good price for you to pay. You need not sign up with a full-service broker to trade successfully. Order matching is done electronically, so it's not as if a person on the floor can get you a better price these days. Therefore, a full-service house will not give you better execution.

Discount brokers, on the other hand, are all about focus. They help you trade

and that is it. They will not advise, at least not intentionally, from a business perspective, and phone ordering is nonexistent. That doesn't mean they reduce customer service.

## Margin

Margin refers to the number of assets you currently hold in your account. Your assets are cash and positions. As the market value of your positions fluctuates, so does the amount of margin you have. Margin is an important concept to grasp since it is at the core of your risk management discipline.

When you open an account with your broker, you will have a choice to make. You can open either a cash or margin account. To trade options, open a margin account. Briefly, a cash account does not include leverage within it, so all you can trade are stocks. There are no account minimums for a cash account, and even if they are, they're minuscule.

A margin account, on the other hand, is subject to weird rules. First, the minimum balances for a margin account are higher. Most brokers will impose a $10,000 minimum, and some will even increase this amount based on your trading style. The account minimum achieves nothing by itself, but it acts as a commitment of sorts for the broker.

The thinking is that with this much money on the line, the person trading will be more serious about it and won't blow it away. If only it worked like that. Anyway, the minimum balance is a hard and fast rule. Another rule you should know is the Pattern Day Trader (PDT) designation.

PDT is a rule that comes directly from the SEC. We classify anyone who executes four or more orders within five days as a PDT ("Pattern Day Trader," 2019). Once this tag is slapped onto you, your broker will ask you to post at least $25,000 in the margin as a minimum balance. Again, this minimum balance does nothing, but the SEC figures that if you screw up, this gives you enough of a buffer.

## Margin Call

One other aspect of margin you must understand is the margin call. This is a dreaded message for most traders, including institutional ones. The purpose of all risk management is to keep you as far away as possible from this ever happening to you. A margin call is issued when you have inadequate funds in your account to cover its requirements.

Remember that your margin is the combination of the cash you hold plus the value of your positions. If you have $1000 in cash, but your position is currently in a loss of -$900, you'll receive a margin call to post more cash to cover the potential loss you're headed for. In fact, you'll receive it well in advance. If you don't post more margins, your broker has the right to close out your positions and recover whatever cash they can to stop their risk limits from being triggered.

The threshold beyond which your broker will issue a margin call is called the maintenance margin. Usually, you need to maintain 25% of your initial position value (that is when you enter a position) as cash in your account. Most brokers have a handy indicator that tells you how close you are to the limit.

The leading cause of margin calls is leverage. With a margin account, you can borrow money from your broker and use that to boost your returns. Let's look at an example: if you trade with $10,000 of your own money and borrow $20,000 from your broker to enter a position, you control $30,000 worth of the position. Let's say this position makes a gain of $10,000 to bring its total value to $40,000.

You've just made a 100% return on this investment (since you invested only $10,000) despite the total return on the position is 33% (10,000/30,000). What happens if you lose $10,000 on the position, though? Well, you just lost 100% despite the position losing only 33%. Leverage is a double-edged sword.

It is far too simplistic to call leverage bad or good. It is what it is. If you're a beginner, you should not be borrowing money to trade under any circumstances. When you're experienced, you can do so as much as you want. Please note the difference between the leverage where you borrow money, and the leverage options provide.

With options, a single contract gives you control over a larger pie of stock, but the option premium still needs to be paid. It is, therefore, cheaper to trade options than the common stock. If you were to borrow money to pay for the option premium, then you're indulging in foolish behavior, and you need to step away.

There's a difference between leverage being inherent within the structure of the instrument and using leverage to increase the amount of something you

can buy. The latter when you're a beginner.

## Execution

A favorite pastime of unsuccessful traders is to complain about execution. Their losses are always the broker's fault, and if it weren't for the greedy brokers, they'd be rolling in the dough, diving in and out of it like Scrooge McDuck. Complaining about your execution will get you nothing. A big reason for these complaints is that most beginner traders don't realize that the price they see on the screen is not the same as what is being traded on the exchange.

We live in an era of high-frequency trading, and the markets' smallest measurement of time has gone from second to microseconds. Trades are constantly pouring in, and the matching engine is always finding suitable sellers for buyers. Given the pace of the market, it is important to understand that it is impossible to figure out the exact price of an instrument.

Therefore, within your risk management plan, you must make allowance for times of high volatility when the fluctuations will be bigger. For now, I want you to understand that just because the price you received differed from what was on screen doesn't mean the broker is incompetent.

### Price Quotes

A lot of traders are stumped when they first look at their trading screens and see that there are two prices for everything. After all, every financial channel always displays one price for security, but when trading, you'll be quoted two different prices within the price box. This is a small but crucial detail for you to understand.

The lower price you receive is called the bid, and this is the price you will pay if you sell the instrument. The higher price is asked, and this is what you will pay to buy the instrument. The single price you see on your TV screen is the "Last Traded Price" or LTP. Do not make the mistake of thinking the LTP is the actual price since the market moves constantly.

In fact, even the spread (the difference between ask and the bid) doesn't accurately reflect the genuine state of things thanks to constant movement. There's no need to be alarmed though, as long as volatility is stable, the difference isn't much. Just remember to look at the spread to understand what you'll be paying. The spread increases and contracts constantly, but if you

see that it is getting too big, this is a sign that too much volatility exists, and you’re better off staying out.

**CHAPTER 30:**

# Credit and Debit Spreads

Your broker is probably going to require that you are a level 3 trader in order to implement these strategies because they involved selling to open options without owning the share of stock or putting up the capital to cover the purchase of shares from a put option. The only capital that is required to put up in these cases is the maximum loss that might be realized from the trade.

There are four different strategies that can be put in place here, and we are going to examine each in turn. When you enter into a credit spread, this is a sell to open trade and you are looking to earn a regular income. These types of trades are not always going to go your way; that is certainly true. However, they are considered to be relatively safe ways to sell premium in order to earn money.

A put credit spread is somewhat equivalent to selling a naked put. You will see how that works out as we go through the details, but selling naked puts is one of the most common and profitable income strategies with options. To sell naked puts, you have to be a level 4 trader with a margin account, however. So selling a put credit spread removes the margin requirement and you can be a level 3 trader and use this strategy. The difference between a put credit spread and a naked put as far as money earned is that per trade, a put credit spread is going to earn less money than selling a naked put.

Conversely, you can sell a call credit spread as well. We will explore the reasons that you would choose to sell this instead of the put credit spread below. What you need to be aware of is that selling a put credit spread is the same bet as buying what is known by the name of call debit spread, and selling a call credit spread is the same bet as buying a put debit spread.

So in the strategies used in this part, we are going to be betting, to a certain extent, on the directional move of the stock. However, as we will see it isn’t going to matter how much the stock moves, as long as it’s past the breakeven point.

The beauty of these strategies is that anyone can use them, as long as you can round up a few hundred dollars. So you can start generating income from these types of options strategies fairly quickly. We will be discussing this as well as we move along to examine each case. We will get started by looking at the put credit spread.

## Put Credit Spread

The idea behind a put credit spread is to earn money from selling a put option. But in order to mitigate the risk, you buy a put option simultaneously. This is different than selling a naked put option, where you just sell one option and that is the end of it. Since the option that you buy is going to mitigate your risk a little bit, you are not held to the same standards as someone who is selling naked put options. That said you still have to have a level 3 trading account in order to use this strategy.

The first thing to realize about the put credit spread is that you are selling to open the position. So this is selling, not buying to trade options. Theoretically, there is a risk of assignment, but as we'll see, it's not a real risk in practical terms, and because the trade is mitigated by the second put which you buy to open the trade, the practical impact of this is minimal.

The two options are bought and sold in one trade, so this is considered a single trade and is not two separate trades. You can buy a put debit spread, so the other party to the trade is doing that when you sell to open your position.

The belief that is behind this type of trade is that you are expecting the price of the stock to stay about where it is now, only minimally decrease in price, or increase in price. It is considered a "bullish" move, and so sometimes, goes by the name bull credit spread, but put credit spread is far more descriptive.

Second, it's not really a bullish move, in the sense that you are hoping that the stock price is going to increase by a lot. Certainly, you will be better off if that does indeed happen. If you set it up right, you will earn the maximum possible profit right off the bat and give some room for the stock to fall before that situation changes.

One of the unique properties of a put credit spread that we have not seen yet in our examination of options is that when the price reaches a certain level that is basically it. A further increase in share price is not going to increase

our profits. In the example below, consider a put credit spread for Amazon. When you sell to open the position, you get a credit to your account of $4.92 (x 100 shares for $492 total). The share price is currently in the maximum gain zone. If the share price moved up by $100, it would have zero impact on the seller of this credit spread, other than having them breathe a sigh of relief that they are definitely going to profit from the trade.

So, it's kind of a bullish strategy, but what you are really doing with a put credit spread is you are hoping that the price doesn’t fall. You are using out of the money put options to set up the trade, and the hope here is that they are going to expire out of the money and that you will pocket the net premium paid on the deal.

CHAPTER 31:

# The Greeks

When you begin options trading, you are going to encounter some mysterious parameters called “the Greeks.” These are five pieces of data that accompany every option, and they are denoted with Greek letters. The designations used are a result of the mathematical formulas that go into options pricing, but don’t let that put you off. Many options traders don’t pay much attention to the Greeks, but as a more informed options investor, you are going to want to, at least, be aware of them and check their values.

The first thing to know about the Greeks before we get started looking at them in detail is that they change in real-time. So, if someone tells you that delta is 0.5 or 0.62, it doesn’t mean these are going to be the values that you see by the time you look at the option. As the stock trades all day long, and the value of the share price changes, the values of the Greeks are going to change as well.

## Delta

The first Greek that we are going to encounter is named for the Greek letter delta. This parameter tells you how the price of an option is going to change with respect to a change in the share price of the underlying stock. It is listed as a decimal number that ranges from 0.0 – 1.0.

The dividing line for delta is 0.50, which is the value delta would have for an option that was exactly at the money. So, what does this mean? It means that if the price, for instance, goes up by an increment of $1.00, you are looking at a call option that is $0.50 more. So if the share price of Disney happened to be $132, and you possess a call option having the exact price, if the share price went up to $132.50, the price of the call option would go up by $0.25. On the other hand, if the share price had risen to $133, the value of the call option would have risen by $0.50.

While traders like to focus on gains, this cut both ways. So, if the stock dropped from $132 a share to $131 a share, your option would drop in value by $0.50.

Remember that options prices are quoted on a per-share basis, but they are for 100 shares of stock. That means that a 50 cent drop is quite significant. If you're looking at an option that is priced at $100, a 50 cent drop in share price could translate into a drop in the price of the option of $25. And of course, if it rose by $0.50, you'd make $25 on the option.

Put options have a negative delta. This reflects the fact that the correlation between the put's value and the fluctuation in the share's price is in the opposite manner. That is, if the price of the stock goes up, the put option loses value. If it's another way around; that is, the stock loses its favorable spot in the market, the put options become lucrative when traded. But the meaning is the same.

So when you are looking at an at the money put option, you are going to see a delta of -0.50. If the price of the stock rises by $1, you will lose fifty cents per share on the option. In contrast, if the stock dropped by $1 in value, you would gain fifty cents.

Remember, with put options, there is a negative sign. So, an in the money put option will have a value that is more negative than -0.50. If you see a put option with a delta of -0.65, which means it's in the money. If you see a put option with a value of -0.25, that indicates that it is out of the money. In any case, for a put option, the key to remember is that if stock prices rise, put option prices drop. When stock prices decline, put option prices rise.

## Theta

The second Greek that you want to keep an eye on is theta. This is a measure of time decay for the option. Theta is always negative. This reflects the fact that as time goes on, the value of the option that is tied up in time value declines. The time value of an option always declines; the question is only by what amount. You can look up theta to determine the amount. As stocks are traded throughout the day, the value of theta is going to change. However, the way that you are going to feel theta is when the days' pass. So, at each market open on a new trading day, options will lose extrinsic value. The amount of value that they lose will be equal to the value of theta.

If you look up an option that is priced at $1 (per share), and you see theta is -0.11, at market open, the value of the option will drop to $0.89. In real terms, if you had bought the option for $100, it would drop in value to $89.

However, you definitely need to account for that loss, so theta is not something to ignore. If the option is out of the money, it's going to be harder to make up for the value lost in the option due to time decay.

That illustrates how theta works. It's going to make its impact felt at the market open. Options do not lose time value during the day; it's the number of days to expiration that is important. The fewer the number of days left to expiration, the less time value the option has. As it loses value each day, we say that the option is experiencing time decay. All options go through time decay, no matter what. Since it's the number of trading days left to expiration that determines this, it only applies as the market opens.

## Vega

The third most important Greek (in my opinion) is Vega. This Greek parameter tells you how sensitive the option is to changes in implied volatility. Precisely, the value of Vega estimates how the price of the option is going to change in response to a 1% change in the implied volatility of the underlying stock. Under normal conditions, Vega may not be that important. While you can look up the volatility for a given stock by looking at its beta parameter (note that beta is for the stock itself, not for options), that gives you the long-term volatility of the stock. Over short time periods, under most conditions, the volatility is not going to change all that much.

However, there are certain conditions under which the volatility can go up significantly, and this can have a large impact on share prices and on the value of options. One situation that you can look for this to happen is when there are approaching earnings call for a heavily traded stock. When there is an upcoming earnings call, implied volatility, which means the future volatility, is going to go up by a large margin. So, while implied volatility can be taken to be relatively constant during normal trading times, in the week or two leading up to some earnings call, it can go much higher, and this can cause a dramatic spike in options prices. Remember that the price of the option is simply influenced by higher levels of volatility. More implied volatility means higher options prices, period. That's because it means there is a higher probability that an option could move in the money.

## Rho

A Greek parameter related to the risk-free interest rate. The risk-free interest

rate is usually taken to be the interest rate on a 10-year U.S. Treasury bill. What is important for options is not the interest rate itself but how it is changing. Rising interest rates can make options less attractive because capital tends to leave the stock market and go into bonds when interest rates are rising by large amounts. In today's environment, and, in fact, over the past 20 years, this hasn't been too much of a concern. Interest rates have been at record low levels over the past decade, as government officials have been trying to use low-interest rates to prop up the economy. Whether that actually works or not is not our concern here, but the fact of the matter is they have only tentatively raised interest rates at times that they have considered doing so, which means that the impact on the stock market has been minimal.

If there is a market crash, this is another situation where many traders and investors will move their money out of the market and possibly into 'safe' investments like bonds. That could be another situation where you want to keep an eye on rho, and also keep an eye on what the Federal Reserve is going to be doing with interest rates. This can actually represent an opportunity to get into options trading because they may actually lower interest rates in order to stimulate economic activity, making options more attractive.

If inflation is rising, this can also cause problems for options traders. The Federal Reserve tries to target a 2% inflation rate. If inflation rises dramatically or goes higher than this, that can mean they will push up interest rates to make money more expensive. In turn, this will mean rho is going to rise, and options are going to be less attractive because, once again, higher interest rates mean capital moving out of the stock market and into bonds. This type of movement hadn't happened very significantly since the late 1970s and early 1980s when inflation was very high, and interest rates were lifted dramatically to bring it under control. But if you are going to become a full-time options trader, you need to be aware of how it works in case you run into this type of situation during your trading life.

## Gamma

The final Greek is called gamma. Simply put, or maybe not simply put if you are not mathematically minded, gamma is the rate of change of delta. Technically, it's the second derivative. It tells you how rapidly delta is going to change with changes in stock prices. While hardcore options traders are

going to be paying attention to this, most options traders don’t need to keep a close eye on gamma. Beginning options traders are probably only going to be looking at delta and theta, and my experience is that delta provides the real information that you need when it comes to the sensitivity of the option to changing stock prices. Rather than following gamma, you are better off keeping tabs on the delta in real-time. The odds are that delta is not going to change much unless there is a very large change in stock prices.

**CHAPTER 32:**

# Terminologies

**At the money** - This term is used to describe the nearest price to the equity price during a particular trading moment.

**Ask price** - This is the lowest price that is being advertised in the options trading that anyone is willing to accept when selling a particular option at a particular period.

**Bid spread**- This is the actual difference between the asking price and the bid price for a given option during a particular options trading period.

**Big chicken trade** - This is a term used to describe a series of bull call calendars and the bear put calendars.

**Bullish** - This term is particularly referring to an investor who believes that a specific stock price will go higher or simply the market will rise higher.

**Bearish** - This term, on the other hand, describes a trader who believes that the market prices will do lower or the market will experience a downfall at a particular trading activity in a specific period.

**Break-even point** - This is the specific price that an underlying asset must reach to avoid the option buyer from acquiring losses if at all they decided to exercise the option.

**Call option** - This is an equity agreement that awards a buyer the chance to purchase 100 particular shares at a particular strike price within a specified time. A seller is also needed to sell off the stock at a particular price if the option gets exercised.

**Change** - The percentage term price of the last hour's sale in the options market.

**Commission** - This is the fee charged in an options trading market after option orders have been executed on a securities exchange.

**Contract** - This is an agreement set between a buyer trader and a seller trader during a particular options trading activity.

**Credit** - It is any value amount received in a particular trading account from the financial benefits experienced in various options trading activities. The profits and multiple benefits feed the trading accounts.

**Debit** - This is any amount of cash paid out to purchase an option during a particular trading period.

**Dip in the money** - This is a term used to refer to multiple in-the-money occurrences that have been experienced in a particular trading period in the options market.

**Downside risk** - This is the estimation of a particular downfall market price that is likely to be experienced by the market during the end of a particular trading period.

**Ex-dividend** - This is the actual date in which the stock enters the options trading market with the absence of dividends.

**Expiry date** - This is the actual date–day, month, or year–to which a particular options trading contract becomes invalid and null.

**Equity option** - It is a kind of option that gives the owner, who happens to be the buyer, the chance to purchase and sell any available stock in the trading market at a specific share during a particular period before the expiration date is reached.

**Historical volatility** -This is analyzing the actual volatility of the past market occurrences and making the necessary helpful strategies and learning in your trading plan.

**Holder** - The specific owner of the contract is referred to as the holder in options trading.

**Horizontal** - This is a term describing the options of the same strike price experienced in different months.

**Index option** - This is an option contract where the index is the underlying stock and not shares of any specific stock.

**Implied volatility** - This is an estimation of the future likelihood market volatility by analyzing the market status through the current activities occurring at the options trading market. Some traders get to use this as one of their strategies the options trading market to acquire large chunks of profits.

**Last sale** - It is the latest price that a certain option trader has traded within options trading.

**Long Option** - simply implies having purchased an option at online transactions and therefore own it.

**Margin** - This is a particular amount of loan offered by a particular broker of a specific trader during a particular trading period.

**Mean** - This is a mathematical operation where the total sum of observations in the market is divided by the particular number of observations in the market. The mean is used to provide data on various market values and the market standard deviation.

**Option spread** - It is established by buying and selling equal amounts of options of a similar class with the same underlying security. However, the strike prices and expiration dates of the options are different.

**Option** - It is a contract that allows an investor to purchase and sell a specific trading stock at a particular price within a particular period.

**Open interest** - This is the number of the option that has been sold and also the ones that have not been brought back or in any case, exercise.

**Put option** - The kind of option where a buyer is given the privilege to sell 100 shares at a constant price before the expiration date. On another hand, the seller of a put option is required to purchase stock at a particular price if the trading option gets exercised at all.

**Resistance** - This is a particular level where the equity price cannot beyond any way higher, meaning that particular price is the actual price limit.

**Strike price** - This is the actual amount of price in which you choose to sell or buy options when you decide to exercise an option in the market.

**Short Option** - This means to have sold the option in an opening transaction.

**Spread** - This is an option position established when a purchase of one option is established and a sale of an option too using the same underlying asset available in the trading market.

**Selling to open** - This ideally describes the selling of a particular option to open a position.

**Selling to close** - Selling a close means selling a specific option with the

desire to close a particular position during options trading.

**Stock** - It is described as a portion of a particular company belonging or ownership.

**Time decay** - This is the erosion period when the value of time of a specific option diminishes as the expiration date reaches.

**Time value** - It describes the value to which time is attributable in options before a particular expiration date is reached.

**Trading platform** - This is a general trading site that traders interact with while making trading moves, buying, selling, and any other trading activities. Trading platforms consist of various kinds according to different variety of interests, and a trader gets to pick on a site in which he or she is most comfortable with.

**Volume** -This is the number of contracts that have been traded during a particular options trading period.

**Volatility** - This is the actual fluctuation of prices of stocks in options trading where the stock prices keep rising and falling within time hence making it hard for traders to predict on future likely activities.

**Writing an option** - This is to sell a call or put option contract that has been not possessed by any other trader in the market.

# Conclusion

You need to practice. You need experience deciphering market patterns and you need to be constantly tweaking your if-then statements for your trading setups. Every day is a new game and a new puzzle to solve. You must learn how to think in day trading, and this is no easy task.

You must start recognizing patterns and developing trading strategies. And these strategies must be practiced in real time and under stress. Trading in simulators can help and is absolutely necessary, but there is no substitute for trading with your real hard-earned cash where your results actually matter. When you begin as a trader, you most likely will be horrible. Many times at the beginning of my career, I came to the conclusion that day trading was not for me. Of course, this feeling of disappointment goes away faster these days, usually after the succeeding good trade. But for you, because you have not seen success yet, surviving the learning curve is very difficult. I know that. However, this does not mean you should lose a lot of money when you trade live at the beginning. Trading in the simulators will help to prepare you for real trading with real money. If you are signing up for a training course or mentorship program, you should very carefully read about their plan.

New traders often expect to make money immediately, and when they don't, they let this affect their work. When they do not see the results that they expected, they start to focus on the wrong things. Some increase their share size, hoping that this will help them make more money. Many will not prepare as hard as they should because they become discouraged. They ask themselves, "What is the point of preparing hard if I cannot make money?" They start to take chances that a successful and experienced trader would never take. They become gamblers. This leads to even more significant losses and only adds to their problems. You must allow at least eight to twelve months before you will become consistently profitable. If you are not willing or are unable to do this, then you should find another career. Some are not able to either financially or psychologically commit this much time to this pursuit. If this is the case, then again, you should find another profession.

Becoming a consistently profitable trader could turn out to be the hardest thing you will ever do. The intensive training process that you must follow

takes eight to twelve months and requires much hard work. It will enable you to find out how good you can be, but to do that you must genuinely believe that you will become great.

All of us have mental weaknesses that we must conquer. If we stubbornly insist on trying to prove to the market that we are right, we will pay a high price. Some traders cannot accept a loss and exit stocks that trade against them. Some take small profits prematurely instead of waiting for the final profit target. Some are afraid to make a decision to enter a trade with an excellent risk/reward that they recognize. The only way to get better is to work on your weaknesses.

# SWING TRADING

A Guide for Beginners, Options Strategies, And Trade Systems. Stock Options and Forex Trading

**MARK REESE**

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# Introduction

Swing trading is the demonstration of bringing in money from protections that have transient value developments between a couple of days, to half a month long. Sometimes, this can hit a month or two most extreme, yet generally, it's inside a time allotment of a couple of days. Swing traders are individuals and here and there foundations like mutual funds. For the most part, they don't have positions 100% of the time; instead, they hang tight for the correct opportunities to bounce in. Their goal is to exploit information exchange or downtrend in evaluating. At the point when the securities exchange is gaining and progressing admirably, they purchase all the more then they sell. At the point when the market is feeble, they are short increasingly then they are buying. In the end, when the market isn't getting along admirably by any stretch of the imagination, they sit as an afterthought and sit tight for another opportunity.

Are far as taxes go with Swing Trading, there are a couple of essential things to know. How much tax you pay on your earnings relies upon a couple of different variables. First is to what extent you are holding your positions. On the off chance that you hold a position 366 days, only one day longer than a year, at that point you sell it you will pay a lower tax rate than ordinary on your profit. This income rate is ordinarily at about 15% for a great many people; however, it can be as low as 5% for people with lower income. The current tax law that sets the 15% tax rate is set to lapse toward the finish of 2010, so it could change after that date. Swing traders will, for the most part, not meet all requirements for this rate as they don't hold onto positions for exceptionally long. Momentary profits are generally taxed at a person's ordinary taxation rate. There are exemptions to this standard. On the off chance that you are delegated an example informal investor, and you trade at least four full circle day trades every 5 business days, at that point, you can regard your profits and losses at the expense of working together. You likewise need to keep up a record with $25,000 or more in it. This can be extremely helpful as you can group capital increases and losses as ordinary income and misfortune. On the off chance that you are doing high volumes of trading, you can set aside a good deal of cash along these lines. This isn't for

everybody, as you must have a decent measure of money to trade with. There contrast between a swing trader and a purchase and hold financial specialist is that the purchase and hold speculators couldn't care less about value swings. They are just keen on the long term growth of their money, so they accept that their positions will go up in cost over a more extended measure of time. As a rule, this is quite a long while not far off, so they are not taking a gander at the daily value swings, only the master plan. Purchase and hold investing aren't very time-concentrated and can bring a great deal of profit if you do not need cash flow. Swing trading isn't for everybody, except for somebody that has a ton of restraint and a decent, hard-working attitude; there is a great deal of profit to be made. Being taught, experienced, and committed is a massive piece of being a successful swing trader.

CHAPTER 1:

# Swing Trading Basics

There are different trading styles and strategies used by traders around the world. These are often used based mostly on preference. We can define swing trading as an approach whose primary purpose is to gain and make profits in the course of a few days to a few weeks. It is a form of trading where traders endeavor to benefit from small market movements which can have a massive range in comparison. The average swing trading plan lasts between a single day and 5 days. However, it is common to see trade plans last a couple of weeks or even months.

Swing traders enjoy the potential of earning from breakouts within a relatively brief time. Part-time traders who have other things to do, such as employment, can benefit greatly from this method. It is easy to enter trades and then proceed to attend to other matters. Therefore, if you are a busy individual without the time and focus needed for short day-trades, then swing trading is probably the most appropriate strategy for you.

Swing traders generally use technical analysis to guide them in their trades. Technical analysis involves studying a particular stock's history and using the information obtained to predict future movements. The reason is that past performance is a great indicator of future price movements in the markets.

## Technical Analysis

Technical analysis is very popular with swing traders. As such, they are least concerned about fundamental analysis and its implications. They do not care about a company's performance or its fundamentals. Whether a company is doing well or performing poorly is none of their business. Even the thoughts of analysts, stockbrokers, finance experts, and others do not matter. The only important factor as far as day traders are concerned is the performance of the company's stock at the markets.

Swing traders often search for stocks with potential. Not any stock traded at the markets qualifies to be traded. A good stock is one with a positive market outlook, one that has plenty of volatility, high volumes, and possibly a blue

chip. Blue chips are valuable companies that are very successful and generate a lot of income.

The search, once relevant stocks are identified, focuses on definite risk versus reward ratios. Swing traders are aware that a suitable stock, once identified, is likely to make a move. It is crucial, therefore, to be there ready and waiting to capitalize on the movements. Swing traders need to be very fast and jump into a trade then begin to ride it.

## Market Speculation

Swing trading can be viewed as a form of market speculation for the short term. In this fundamental type of speculation, traders hold positions for at least one day but usually for longer. Numerous securities can be traded this way including currencies, options, stocks, futures, cryptocurrencies, and even ETFs.

A trader will endeavor to make gains by entering a position and maintaining it for a day or longer in the hope of making some explosive gains. The period ranges from one day to a couple of weeks. When this period extends to months, then the trader is said to be an investor. The main distinction between traders and investors is the amount of time spent holding positions.

As a swing trader, you will use technical analysis just about all the time so that you can identify the trend and benefit from its movement. Most of the time, there will be neither a bearish nor bullish movement at the markets. However, sometimes, stock or other security may be moving in a trend that is predictable especially between the support and resistance areas.

Even in this instance, there are swing trading opportunities. As a trader, you should assume a short position close to the resistance area or an extended position. Sometimes, it takes a couple of weeks or even months to benefit from an expected price movement.

It is crucial to note that swing trading can expose you to a weekend or overnight risks. What happens is that you may enter a position during the day. Still, then unforeseen events take place overnight or in the course of the weekend. These events could affect the price movement and substantially affect your position in the markets.

There is an established and trusted risk versus reward ratio used by swing traders to take profits. This ratio is based mainly on a profit target as well as

established, pre-determined stop-loss levels. The system can be set up such that profit-taking happens when a certain profit level is attained or when a guaranteed loss level is attained.

## Why Swing Trading?

Swing trading has proven to be among the most preferred forms of trading and making money. It is essential to ensure that your technical analysis skills are up to scratch if you are to trade and be profitable consistently. You will also be assessing trades based on a risk versus reward ratio. This is done using charts. Chart analysis will help you to determine where to enter a trade, when to exit, and where to take profits. As a swing trader, you will mostly rely on the 15-minute or 1-hour charts to determine the most suitable stop-loss and entry points.

Apart from technical analysis, you will also need to ensure that your fundamental analysis skills are up to scratch. For instance, you may notice that stock is on an upward trend and you want to get and benefit from its movement. Before doing so, you will need to confirm that its fundamentals are sound and secure.

As a trader, you can risk about $1 to make $3. This is considered a reasonable and favorable risk to reward level. However, risking $1 to make perhaps $1 or less is considered unfavorable.

### Upward trend favored by bullish traders

The stock movement in the markets hardly follows a straight line. Instead, the movement forms a step-like pattern. As an example, stock or other instruments might trend upwards for a couple of days then take a dip for a while before resuming its upward trend. When you carefully examine these patterns for a while and observe that the entire movement keeps moving upwards, then we can declare that the stock has an upward trend.

Bullish traders need to first identify the initial upward trend of stock before an expected pullback or trend reversal. This reversal is also referred to as the counter-trend. After the trend reversal, you should expect to observe a resumption of the upward trend.

### Collect profits on the uptrend

It is advisable to wait for the resumption of the uptrend before entering a

trade because we have no idea how long a downward trend could last. Therefore, always watch out for the upward movement, wait for the pullback, and then watch out for the trend to resume and then make a move. This is true and valid for a bullish situation.

To effectively achieve this, you will need to be able to determine the most appropriate entry point. In most cases, this is usually as soon as the upward trend resumes just after the counter-trend. However, you will need to confirm this using risk analysis. The entry point needs to be tested to determine the target and assess any possible risks.

You will also need to determine the exit trade point. This is the point at which you will exit the trade should it begin a downward trend. It is also known as the stop-loss point. This approach is necessary if you are to limit your losses. Also, identify the peak or highest point of the new upward trend. This peak should be considered as your take profit point. Once this point is attained, you should take at least some profit because there could be another counter-trend.

If the upward trend continues, then you will need to identify the best possible exit point or profit point so that you ride the momentum even as you lock in some of the profits. This is an excellent approach and is one of the easiest ways of making money as a swing trader. The reward of any trade is equal to the difference between the entry point and the take profit point.

**Trading the Downward Trend**

Some traders prefer to enter a bullish market and apply swing trade strategies. Entry into such trade requires the use of a limit order, individually the buy-stop order. Most traders prefer trading either stocks or options. Call options are preferred in a bearish market as traders' profit under such market conditions. Options trading a bearish market can be rather complicated but it is an art practiced and favored by many seasoned traders.

Stocks and options on a bearish market tend to follow a zigzag or step-like path. In such a case, the stock will decline in value for many days, and then experience resurgence before resuming the downward trend again. With close observation and time, the overall trend can be viewed in much the same way as the upward trend.

**Gains collected on the Downward Trend**

First of all, you should only enter a bearish trade after carefully evaluating your risk versus reward ratio. We can compare the entry point, in this instance, with the stop-loss point. If the stock option or stocks attain the lowest price level of the most recent downward trend, then this point will be considered the take profit point. Hence, it is advisable to take profits and exit the trade.

**Trading against the Markets**

As a swing trader, you will mostly follow the trend set by stock on the market. Going with the trend is advisable and is what most traders do. You must be super talented or experienced to go against the trend. However, some traders do this. Such traders are said to be “fading.”

Fading is simply another term for trading against the market trend. There are other terms used to mean the same thing. These include trading the fade, contrarian trading, and counter-trend trading. Sometimes, swing traders choose to trade the fade. This is where they assume a bearish position during an upward trend and a bullish position during a downward trend.

As a trader, you want to exit any fading trades before the end of the counter-trends. This is because the trend will resume its normal movement and your positions could start making losses.

CHAPTER 2:

# Pros and Cons of Swing Trading

Swing trading requires a period that is less than a day of thinking and shorter for someone who is on the road to buying and selling for a more extended time. In the case of accounting for tax purposes, anything that is shorter than a year is conceived as short-term investment on the stock exchange, and anything that is for a year or longer is conceived as long-term investment.

Swing trading is a particular trading and investing style. It is ideal for all those who want to sell for a more extended time than a trading day and have a strong understanding of swing trading strategies. The day traders enter and leave on the same day and at the same location. Swing traders will keep their trading in stocks and commodities open for a few weeks, which could last up to a few months. Traders are focused on the swing trading strategies they learn.

## Swing Trading Stocks Pros and Cons

Like all other stuff, Swing trading also has a right side and a wrong side. Day trading and swing trading are equally risky, depending on the experience, technical examination, and psychology of the trader. Just remember the rule that the longer the trading time on the exchange, the higher the risk factor.

## Pros of Swing Trading Stocks

- It's less time consuming than the investing part of the day.
- The trader has more time to examine the best trading strategies between the markets. Therefore, the trader is likely to be able to pick suitable and exciting performers.
- The terrible first entry is given time to recover from the damage and then to enter a better level or condition based on the path selected by the dealer. It is notable that the extended position, that is the upward positions are even more competitive than the first short position that is the downward position.

- Swing Traders doesn't need to satisfy the needs of the “Standard Day Trader.”
- Swing traders are permitted to provide more data for analysis according to the time frame than the day traders.
- A swing trader is more relaxed and surer of his/her trade as the current pattern in trading is backed by the long-term evidence from the past.

## The Cons of Swing Trading Stocks

The swing trader spends less energy and has more flexibility for the assessment of the right trading strategies between the trades. Thus, the trader will potentially pick successful and fascinating performers.

**The con:** is that a swing trader might get weak data and information into the data analysis and may choose a less favorable stock result or a loss of stock or product.

- The terrible first entry is given time to recover from the loss and then come to a better level or condition based on the option the trader has chosen. It is advised that the extended position, which is the upward positions are even more competitive than the first short position, which is the downward position.

**The Con:** the first low and bad entry has the chance to get rolling in the opposite direction to the exchange.

## Swing Trading - How Do I Trade?

**Pure knowledge:** It sounds impressive when you hear of swing trading in stock, but most traders are ignorant of the process of trading. In swing trading, the trader usually indulges in buying stocks in the trend where it’s high. Simply put, the swing trader will never trade in the direction that is not in the market and will not suit the pattern. Such trades take place for a few days and typically keep track of the higher period tables, which is like 1 hour and more than that when you are tracking and positioning the trades.

There are many distinct ways in which a swing trader can conveniently position his/her trades, and this is also in the context of the current theme. The popular and helpful strategy is to wait for the price level to be restored

and you will need to reach the trade before it continues to flow. The entry is usually made based on market reverberation of support or resistance rates, trend lines or, in some instances, indicator verification may be required.

In swing investing, swing buyers or traders will quickly see the bets stacked on their rights by watching larger and broader period charts and joining transactions just in the context of significant movements in the stock market. It would give the company a mind that blows the type of investing regardless of the stock market.

**Know How to Swing Trade:** To understand how to navigate trade, you need to know the essential components of trade. Both the specifics below are building blocks for swing stock trading and are the reasons why highly skilled investors are genuinely successful.

This field supports the following:

- **Trading Psychology:** You need to develop positive Psychology in order to be able to transact effectively.
- **Money Management:** This strategy allows traders to reduce costs and increase the return value of their income.
- **Market Analysis:** In order to carry out a market study, there are two aspects in which a scientific and fundamental analysis is carried out.
- **Japanese candlestick charts:** It's an essential item to get an inside looks at the financial market and its emotions. You must be able to interpret and understand the structures of the Japanese candlestick.
- **Pattern Identification:** Swing traders improve their chances by selling in the direction of the pattern. You need to learn the right pattern.
- **Support and Resistance Levels:** These two levels enable the trader to recognize the main areas of the stock market where patterns are in the trader's favor.
- **Fibonacci Retracement Rates:** Like support and resistance rates, Fibonacci Retracement Levels also encourage you to have a secure market entry.
- **Trading Metrics:** The newcomers will look at metrics that are commonly used by banks and experienced investors in swing

trading.

- **Stop loss:** Stop losing results in trifles which can also be damaging; the majority of entrants in this company are therefore overlooked.
- **Trading Hours:** Always does a thorough scan and then finds your hours that are ideal for opening and closing trades.

The term refers to the different types of swing trading such as stock, commodities or index. This selling is a form of trading practice in which a broker buys or sells an asset at or very close to the end of a downward or upward price movement in a commodity. This swing is due either to daily price fluctuations or to weekly price volatility. Knowledge of these types allows him to become a competitive businessman and to place him on the road of a successful trade career.

The time limit usually used by the dealer to keep the instrument is 1-4 days. In any case, it's mostly less than a week. The currency or swing market volume that the dealer is working with is moving from one price point to another. A swing investor depends on the oscillation or movement of the stock market. It suggests that it buys products in the course of market trends and does not compete by fighting major market patterns.

**CHAPTER 3:**

# Stocks

A stock is a form of security that suggests proportional ownership in a company. Stocks are acquired and sold predominantly on stock exchanges; however, there can be private arrangements as well. These exchanges/trades need to fit within government laws which are expected to shield investors from misleading practices. Stocks can be obtained from a large number of online platforms.

Businesses issue (offer) stock to raise capital. The holder of stock (shareholder) acquired a portion of the company and share its profit and loss. Therefore, a shareholder is considered an owner of the company. Ownership is constrained by the amount of shares an individual owns concerning the amount of shares the company is divided into. For example, if a company has 1,000 shares of stock and one individual owns 100 shares, that individual would receive 10% of the company’s capital and profits.

Financial experts don't own companies as such; instead, they sell shares offered by companies. Under the law, there are different types of companies and some are viewed as independent because of how they have set up their businesses. Regardless of the type of company, ultimately, they must report costs, income, changes in structure, etc., or they can be sued. A business set up as an "independent," known as a sole proprietorship, suggests that the owner assumes all responsibilities and is liable for all financial aspects of the business. A business set up as a company of any sort means that the business is separate from its owners and the owners aren’t personally responsible for the financial aspects of the business.

This separation is of extreme importance; it limits the commitment of both the company and the shareholder/owner. If the business comes up short, a judge may rule for the company to be liquidated. However, your very own assets will not come under threat. The court can't demand that you sell your shares, though the value of your shares will have fallen significantly.

## Fundamentals of stock/securities exchange

The exchange of stocks and securities happen on platforms like the New

York Stock Exchange and NASDAQ. Stocks are recorded on a specific exchange, which links buyers and sellers, allowing them to trade those stocks. The trade is tracked in the market and allows buyers to get company stocks at fair prices. The value of these stocks moves up or down depending on many factors in the market. Investors can look at these factors and make a decision on whether or not they want to purchase these stocks.

A market record tracks the value of a stock, which either addresses the market with everything taken into account or specific fragments of the market. You're likely going to hear most about the S&P 500, the NASDAQ composite and the Dow Jones Industrial Average in this regard.

Financial advisors use data to benchmark the value of their portfolios and, some of the time, to shed light on their stock exchanging decisions. You can also put your assets into an entire portfolio based on the data available in the market.

Most financial experts would be well-taught to build a portfolio with a variety of different financial assets. However, experts who prefer a higher degree of movement take more interest in stock exchanging. This type of investment incorporates the buying and selling of stocks.

The goal of people who trade in stock is to use market data and things happening in the market to either sell stock for a profit, or buy stocks at low prices to make a profit later. Some stock traders are occasional investors, which means they buy and sell now and then. Others are serious investors, making as little as twelve exchanges for every month.

Financial experts who exchange stocks do comprehensive research, as often as possible, devoting hours day by day tracking the market. They rely upon special audits, using instruments to chart a stock's advancements attempting to find trading openings and examples. Various online intermediaries offer stock exchanging information, including expert reports, stock research, and charting tools.

## What Is a Bear Market?

Progressive financial experts may be alright with the term bear market. Profiting in the trade business will always far outlasts the typical bear market; which is why in a bear market, smart investors will hold their shares until the market recovers. This has been seen time and time again. The S&P 500,

which holds around 500 of the most enormous stocks in the U.S., has consistently maintained an average of around 7%, when you factor in reinvested profits and varied growth. That suggests that if you invested $1,000 30 years ago, you could have around $7,600 today.

You can't avoid the possibility of bear markets or the economy crashing, or even losing money while trading. What you can do, however, is limit the effects these types of markets will have on your investment by maintaining a diversified portfolio.

Diversification shields your portfolio from unavoidable market risks. If you dump a large portion of your cash into one means of investment, you're betting on growth that can rapidly turn to loss by a large number of factors.

To cushion risks, financial specialists expand by pooling different types of stocks together, offsetting the inevitable possibility that one stock will crash and your entire portfolio will be affected or you lose everything.

You can put together individual stocks and assets in a single portfolio. One recommendation: dedicate 10% or less of your portfolio to a few stocks you believe in each time you decide to invest.

**Selling Your Stocks**

As important as buying stocks knows when to sell them. Most financial experts buy when the stock exchange is rising and sell when it's falling. Regardless, a talented money marketer seeks after a strategy subject to their financial needs.

You should reliably watch out for the outstanding market records. The three most excellent U.S. records are the Dow Jones Industrial Average, the S&P 500, and the NASDAQ. In any case, don't solidify in case they enter a modification or a mishap. Those events don't prop up long.

If you don't have a great deal of time to deal for managing your stocks, you ought to think about a fixed portfolio. That recommends holding a reasonable blend of stocks, bonds, and commodities. The stocks will promise you benefit by market rises. The bonds and commodities shield you from downswings.

**Theories of stock investments**

Theories of stock investments look like basic resources. Both of them pool all of their investors' dollars into one viably supervised hold. In any case,

theories stock investments put assets into ensnared fiscal instruments known as subordinates. They guarantee to win the normal resources with these significantly used theories.

Theoretical stock investments are private companies, not open organizations. That suggests they aren't coordinated by the SEC. They are risky, yet various investors acknowledge this higher danger prompts a better yield.

**Ways to invest**

There are different ways for new investors to purchase stocks. If you need to pay very low fees, you will need to invest additional time making your trades. If you wish to beat the market, however, you'll pay higher charges by getting someone to trade on your behalf. If you don't have the time or interest, you may need to make do with lower results.

Most stock purchasers get anxious when the market is doing well. Incredibly, this makes them purchase stocks when they are the most volatile. Business share that is not performing well triggers fear. That makes most investors sell when the costs are low.

Choosing what amount to invest is an individual decision. It depends upon your comfort with risk. It depends upon your ability and capacity to invest energy into getting some answers concerning the stock exchange.

**Purchase Stocks Online**

Purchasing stocks online costs, the least, yet gives little encouragement. You are charged a set price, or a percent of your purchase, for every trade. It very well may be the least secure. It expects you to teach yourself altogether in the best way to invest. Consequently, it additionally takes the most time. It's a smart idea to check the top web-based trading sites before you begin.

**Investment Groups**

Joining an investment group gives you more data at a sensible price. However, it takes a great deal of effort to meet with the other group members. They all have different degrees of expertise. You might be required to pool a portion of your assets into a group account before trading. Once more, it's a smart idea to examine the better investment groups before you begin.

**Full-time Brokers**

A full-time broker is costly because you'll pay higher fees. Nevertheless, you get more data and assistance and that shields you from greed and fear. You should search around to choose a decent broker that you can trust. The Securities and Trade Commission shares helpful tips on the best ways to choose a broker.

**Money Manager**

Money managers select and purchase the stocks for you. You pay them a weighty charge, typically 1-2 percent of your complete portfolio. If the chief progresses admirably, it takes minimal amount of time. That is because you can simply meet with them more than once per year. Ensure you realize how to choose a decent financial advisor.

**File Fund**

Otherwise called market traded assets, record assets can be a cheap and safe approach to benefit from stocks. They essentially track the stocks in a file. Models incorporate the MSCI developing business sector record. The reserve rises and falls alongside the file. There is no yearly cost. However, it's difficult to outflank the market along these lines since record supports just track the market. All things being equal, there are great deals of valid justifications why you ought to put resources into a file fund.

**Common Funds**

Common assets are a generally more secure approach to benefit from stocks. The company supervisor will purchase a gathering of stocks for you. You don't possess the stock, yet a portion of the investment. Most assets have a yearly cost of 0.5 % to 3 %. They guarantee to outflank the S&P 500, or other equivalent file reserves.

CHAPTER 4:

# History of Investments

## Stock Market Investing

The stock market is the place investors associate with buy and sell investments most usually, stocks, which are shares of proprietorship in an open organization.

The stock market alludes to open markets that exist for giving, buying, and selling stocks that exchange on a stock exchange or over-the-counter. Stocks, otherwise called values, speak to fragmentary proprietorship in an organization, and the stock market is where investors can buy and sell responsibility for investible resources.

If you claim a stock, you possess a bit of that organization. For instance, if you possess a portion of Starbucks stock, congrats, you are a unit proprietor of Starbucks. However, how would you buy that stock in any case? You need to go to the stock market to do that.

## History of Trade on the Stock Market

Before we plunge into how the stock market functions, we should know how and why the stock market appeared in any case.

The Merchants of Venice were credited with trading government protections as ahead of schedule as the thirteenth century. Yet, the primary real stock trading markets didn't show up until the 1500s.

As is normally the situation, the need was the mother of innovation in the arrangement of the stock market. The East India Company, which qualifies as being the primary, traded on an open market organization, taking into account investors to invest in different boats. In this way, rather than financing one boat and risking all-out misfortune because of privateers, infection, and storms, they permitted investors to buy shares in various ships, so if one was lost, everything was not lost. Their prosperity prompted comparable charters being allowed to different organizations in England, France, Belgium, and the Netherlands. Bistros were their trading floor, where stocks were manually written on pieces of paper and exchanged.

Antwerp was the business focal point of Belgium, and it is commonly acknowledged that it had the world's first stock market framework. Inevitably, the first U.S. stock exchange was opened in 1791 in Philadelphia.

## Reasons for the Stock Market – Capital and Investment Income

The stock market fills two significant needs. The first is to give money to companies that they can use to fund and grow their organizations. If an organization issues one million shares of stock that at first sell for $10 an offer, at that point that furnishes the organization with $10 million of capital that it can use to develop its business (less whatever expenses the organization pays for an investment bank to deal with the stock contribution).

The optional reason the stock market serves is to give investors – the individuals who buy stocks – the chance to partake in the profits of traded on an open market company. Investors can profit from stock purchasing in one of two different ways. For instance, if an investor buys shares of an organization's stock at $10 an offer and the cost of the stock accordingly ascends to $15 an offer, the investor would then be able to understand a half profit on their investment by selling their shares.

There are various customary members in stock market trading.

Investment banks handle the first sale of stock (IPO) of stock that happens when an organization initially chooses to turn into a trade on an open market organization by offering stock shares.

Here's a case of how an IPO functions. An organization that desires to open up to the world and offer shares move toward an investment bank to go about as the "financier" of the organization's underlying stock contribution. The investment bank, in the wake of looking into the organization, all-out value and thinking about what level of possession the organization wishes to give up as stock shares, handles the underlying giving of shares in the market as an end-result of a charge, while ensuring the organization a decided least cost for each offer. It is hence to the greatest advantage of the investment bank to see that all the shares offered are sold and at the most elevated conceivable cost.

Shares offered in IPOs are most usually bought by enormous institutional investors, for example, annuity funds or mutual fund companies.

The IPO market is known as the essential or starting market. When a stock has been given in the essential market, all trading in the stock from that point happens through the stock exchanges in what is known as the optional market. The expression "optional market" is somewhat deceptive since this is where the mind greater part of stock trading happens day to day.

Stockbrokers, who could conceivably additionally be going about as money related advisors, buy and sell stocks for their customers, who might be either institutional investors or individual retail investors.

Value look into examiners might be utilized by stock brokerage firms, mutual fund companies, flexible investments, or investment banks. These are people who explore traded on an open market company and endeavor to conjecture whether an organization's stock is probably going to rise or fall in cost.

Fund supervisors or portfolio chiefs, which incorporates support stock investment administrators, mutual fund directors, and exchange-exchanged fund (ETF) supervisors, are significant stock market members since they buy and sell enormous amounts of stocks. If a mainstream mutual fund chooses to invest intensely in a specific stock, that interest for the stock alone is regularly huge enough to drive the stock's cost discernibly higher.

## Two Basic Approaches to Stock Market Investing – Value Investing and Growth Investing

There are innumerable techniques for stock picking that investigator and investors utilize; however, practically every one of them is some type of the two essential stock buying strategies of value investing or growth investing.

1. Value investors normally invest in settled companies that have demonstrated consistent profitability over a significant period and may offer ordinary profit income. Value investing is more centered on staying away from risk than growth investing is, although value investors do look to buy stocks when they believe the stock cost to be an undervalued deal.

2. Growth investors search out companies with uncommonly high growth potential, planning to acknowledge the most extreme gratefulness in share cost. They are normally less worried about profit income. They are all the more ready to risk investing in generally youthful companies. Innovation stocks, given their high growth potential, are regularly preferred by growth investors.

CHAPTER 5:

# Understanding Diversification

Day traders generally execute trades in the course of a single trading day while investors buy and hold stocks for days, weeks, months, and sometimes even a couple of years. In between these two extremes are other forms of trading. These include swing trading and position trading, among others.

Swing trading is where a trader buys an interest in a commodity or stock and holds the position for a couple of days before disposing of it. On the other hand, position trading is where a trader buys a stake in a commodity or stock for some weeks or even several months. While all these trades carry a certain element of risk, day trading carries the biggest risk.

A trader with the necessary skills and access to all the important resources is bound to succeed and will encounter a steep learning curve. Professional day traders work full time, whether working for themselves or large institutions. They often set a schedule which they always adhere. It is never wise to be a part-time day trader, a hobby trader, or a gambler. To succeed, you have to trade on a full-time basis and be as disciplined as possible.

Diversification is considered an effective risk management technique. Both traders and investors widely use it. The gist behind this approach is that investing funds in just single security is extremely risky as the entire trade could potentially go up in smoke or incur significant losses.

An ideal portfolio of securities is expected to fetch a much higher return compared to a no-diversified portfolio. This is true even when compared to the returns of lower-risk investments like bonds. Generally, diversification is advisable not only because it yields better returns but also because it offers protection against losses.

## Diversification Basics

Traders and investors put their funds in securities at the securities markets. One of the dangers of investing in the markets is that traders are likely to hold onto only one or two stocks at a time. This is risky because if a trade was to

fail, then the trader could experience a catastrophe. However, with diversification, the risk is spread out, so regardless of what happens to some stocks trader still stands to be profitable.

At the core of diversification is the challenge posed by unsystematic risks. When some stocks or investments perform better than others, these risks are neutralized. Therefore, for a perfectly balanced portfolio, a trader should ensure that they only deal with non-correlated assets. This means that the assets respond in opposite ways or differently to market forces.

The ideal portfolio should contain between 25 and 30 different securities. This is the perfect way of ensuring that the risk levels are drastically reduced, and the only expected outcomes are profitability.

In summary, diversification is a popular strategy that is used by both traders and investors. It makes use of a wide variety of securities to improve against inherent and potential risks.

It is advisable to invest or trade in a variety of assets and not all from one class. For instance, a properly diversified portfolio should include assets such as currencies, options, stocks, bonds, and so on. This approach will increase the chances of profitability and minimize risks and exposure. Diversification is even better if assets are acquired across geographical regions as well.

## Best Diversification Approach

Diversification focuses on asset allocation. It consists of a plan that endeavors to allocate funds or assets appropriately across a variety of investments. When an investor diversifies his or her portfolio, then there is some level of risk that has to be accepted. However, it is also advisable to devise an exit strategy so that the investor can let go of the asset and recoup their funds. This becomes necessary when a specific asset class is not yielding any worthwhile returns compared to others.

If an investor can create an aptly diversified portfolio, their investment will be adequately covered. An adequately diversified portfolio also allows room for growth. Appropriate asset allocation is highly recommended. It allows investors a chance to leverage risk and manage any possible portfolio volatility because different assets have varying reactions to adverse market conditions.

## Investor opinions on diversifications

Different investors have varying opinions regarding the type of investment scenarios they consider being ideal. Numerous investors believe that a properly diversified portfolio will likely bring in a double-digit return despite prevailing market conditions. They also agree that in the worst-case situation will be simply a general decrease in the value of the different assets. With all this information out there, very few investors can achieve portfolio diversification.

So why are investors unable to simply diversify their portfolios appropriately? The answers are varied and diverse. The challenges encountered by investors in diversification include weighting imbalance, hidden correlation, underlying devaluation, and false returns, among others. While these challenges sound rather technical, they can easily be solved. The solution is also rather simple. By hacking these challenges, an investor will then be able to benefit from an aptly diversified platform.

There are different ways of allocating investments to assets. According to studies, most investors, including professional investors, portfolio managers, and seasoned traders, rarely beat the indexes within their preferred asset class. It is also important to note that there is a visible correlation between an underlying asset class's performance and the returns that an investor receives. In general, professional investors tend to perform more or less the same as an index within the same class asset.

Investment returns from a diversified portfolio can generally be expected to imitate the related asset class closely. Therefore, asset class choice is considered an extremely crucial aspect of an investment. It is a single, more crucial aspect for the success of a particular asset class. Other factors, such as individual asset selection and market timing, only contribute about 6% of the variance in investment outcomes.

Wide Diversifications between Various Asset Classes Diversification to numerous investors simply implies spreading their funds through a wide variety of stocks in different sectors such as health care, financial, energy, as well as medium caps, small, and large-cap companies. This is the opinion of your average investor. However, a closer look at this approach reveals that investors are simply putting their money in different stocks class sectors. These asset classes can very easily fall and rise when the markets do.

A reliably diversified portfolio is where the investor or even the manager is watchful and alert because of the hidden correlation between different asset classes. This correlation can easily change with time, and there are several reasons for this. One reason is international markets. Many investors often choose to diversify their portfolios with international stocks.

However, there is also a noticeable correlation across the different global financial markets. This correlation is visible not just across European markets but also in emerging markets from around the world.

There is also a clear correlation between equities and fixed income markets, which are generally the hallmarks of diversification.

This correlation is a challenge and is probably a result of the relationship between structured financing and investment banking. Another factor that contributes to this correlation is the rapid growth and popularity of hedge funds. Take the case where a large international organization such as a hedge fund suffers losses in a particular asset class.

Should this happen, the firm may have to dispose of some assets across the different asset classes. This will have a multiplier effect as numerous other investments, and other investors will, therefore, be affected even though they had diversified their portfolios appropriately. This is a challenge that affects numerous investors who are probably unaware of its existence. They are also probably unaware of how it should be rectified or avoided.

## Realignment of Asset Classes

One of the best approaches to solving the correlation challenge is to focus on class realignment. Asset allocation should not be considered as a static process. Asset class imbalance is a phenomenon that occurs when the securities markets develop, and different asset classes exhibit varied performance.

After a while, investors should assess their investments then diversify out of underperforming assets and instead shift this investment to other asset classes that are performing well and are profitable in the long term. It is advisable to be vigilant so that no one single asset class is over-weighted as other standard risks are still inherent. Also, a prolonged bullish market can result in overweighting one of the different asset classes which could be ready for a correction.

## Diversification and the Relative Value

Investors sometimes find asset returns to be misleading, including veteran investors. As such, it is advisable to interpret asset returns to the specific asset class performance. The interpretation should also take into consideration the risks that this asset class is exposed to and even the underlying currency.

When diversifying investments, it is important to think about diversifying into asset classes that come with different risk profiles. These should also be held in a variety of currencies. You should not expect to enjoy the same outcomes when investing in government bonds and technology stocks. However, it is recommended to endeavor to understand how each suits the larger investment objective.

Using such an approach will be possible to benefit more from a small gain from an asset within a market where the currency is increasing in value. This is as compared to a large gain from an asset within a market where a currency is in decline. As such, huge gains can translate into losses when the gains are reverted to the stronger currency. This is why it is advisable to ensure that proper research and evaluation of different asset classes are conducted.

### Currencies should be considered

Currency considerations are crucial when selecting asset classes to diversify in. Take the Swiss franc, for instance. It is one of the world's most stable currencies and has been that way since the 1940s. Because of this reason, this particular currency can be safely and reliably used to measure the performance of other currencies.

However, private investors sometimes take too long to choose and trading stocks. Such activities are both overwhelming and time-consuming. This is why, in such instances, it is advisable to approach this differently and focus more on the asset class. With this kind of approach, it is possible to be even more profitable. Proper asset allocation is crucial to successful investing. It enables investors to mitigate any investment risks as well as portfolio volatility. The reason is that different asset classes have different reactions to all the different market conditions.

Constructing a well-thought-out and aptly diversified portfolio can have a stable and profitable portfolio that even outperforms the index of assets.

Investors also have the opportunity to leverage against any potential risks because of different reactions by the different market conditions.

CHAPTER 6:

# Managing Positions with Various Methods

People make millions from trading in every market. The challenge is not about finding the market that will make you the most money; it is about finding a market that is right for your personality and your level of risk. There are pros and cons to every market, and we are going to go through each of them so you can get a full understanding of the instruments and their varieties and how they work with swing trading.

## Forex

Forex stands for foreign exchange. It is the biggest market in the world with trillions of dollars traded every day on the exchange. The currency market trades 24/7 and allows you to trade in tens of thousands of dollar blocks. The market runs on currency pairs, with the dominant currency being the leading one. To give an example, if you wanted to trade the Euro, you would trade Euro/USD to trade the price of the Euro.

Currencies are a new market. They are open 24 hours a day, five days a week, from 5 PM Sunday to 5 PM Friday. You can start trading them for as little as a $400 account, representing $10,000 of value for as little as $220 in margin. You are usually trading on value of .0001, or what is called a pip. Each pip represents $1 per $10,000 you are representing. This amazing amount of leverage allows for small accounts to bring in a lot of money on small moves.

Like any trading, forex has its ups and downs, the biggest being that it trades 24 hours a day. This makes people who want to keep positions for days faced with the challenge that the markets can move against them overnight and occasionally move fast. But the flexibility of a 24-hour market also means that a lot of part-time traders can find a market to trade at any time and do not have to hold themselves back to standard market times.

But, at the same point, these types of things will bring out the worst traits of a trader, and that is why most people do not recommend them for beginners.

## Futures Market

The futures market is one of the oldest markets ever to exist, used as a tool for farmers to protect their harvests by selling at a certain price today. It was initially placed stores and businesses went to hedge against price hikes as well. That being said, the futures market has evolved a lot since then and has become the home of speculators, with less than 5% of all contracts ever being filled. And in that comes an opportunity. John W. Henry, the owner of the Boston Red Sox, made his fortune speculating on commodities. Jesse Livermore, the greatest trader to ever live, made $3,000,000 shorting cotton in 1907 to such an extent that JP Morgan himself had to call and ask him to stop. Oil, live cattle, corn, gold, treasury bonds, stock indices around the world, and currency are traded on the futures market.

The biggest advantage that for a lot of people becomes immediately clear when trading in futures is the lack of markets you need to focus on. When it comes to stocks, there are so many companies, stocks, and other things to pay attention to which is not a bad thing because it means there will always be some amazing trades that you can potentially take. But, when it comes to trading futures, there are two or three products in every market and a mere 9 markets to follow, though most people even then specialize whether for affordability or simply for markets that move comfortably. You might want to trade oil so that you can preserve your account and manage your risk. You might want to trade stock indices because they have a way of trading the entire market, instead of having to choose any one stock. Marty Schwartz, a famed trader that appeared in the first Market Wizards manuscript by Jack Schwager, traded the S&P minis for years, producing a multi-million-dollar fortune in the process. Shorting the indices was what made Paul Tudor Jones, a legend in the 1987 market crash. Perhaps, also, the markets might be flat, or you hear the economies on a downturn, trading gold has seen people during a gold rally go from dreamers to believers in a few months as markets rallied.

But don’t get me wrong. For every fortune made trading futures, 90% were lost. They are massively leveraged and can lock limit-up or down, meaning that trading is halted for the rest of the day. These limit moves, though rare, do happen and see people stuck in moves they want to get out of but cannot. The leverage, which is what makes most people excited about trading futures in the first place, can suddenly turn on them in a heartbeat.

But their leveraging is not something to ignore or be completely fearful of either. One or two good moves in a market and even something like a Micro-

E-Mini Dow contract can turn a huge profit in just a few days.

Trading futures also has a massive tax benefit, which is the reason many traders trade in them. Because you cannot hold your positions for the year needed to count it as an investment, 60% of all gains are taxed at capital gains and 40% is taxed as income tax. The same goes for forex and options.

## Options

Options are a derivative instrument used to either hedge against a possible negative move in equity or a way to speculate on an up incoming big move at a massive discount. As I wrote above, they represent your right and option to purchase 100 shares of a stock or to sell 100 shares of a stock with a put.

The goal of options trading is about predicting prices and capturing as big of a move as possible. The problem comes with the fact that most options expire out of the money and most people lose money when it comes to options.

There are a host of strategies to use however, that many people have utilized, with unique names like Butterfly Spreads, Iron Condors, and such, allowing you to arbitrage and make money in flat markets.

If you know what you are doing, options can be one of the most powerful strategies for leveraging your capital in the stock market and getting huge rewards in the process. But if you don’t, it can be a money suck that leaves you wondering where all your money has gone to at the end of the day.

## Equities

Equities, also called stock, represent a small percentage of ownership of any company, given value, not by the company’s worth but by the sentiment of the people who are buying and selling the shares of the company. The stock market always has an air of mystery to it for most people, so they leave it to their 401k’s, a mutual fund investor, or anyone but themselves to handle their money in the markets. And because of that, most people never really get a huge financial reward from the markets.

It is understandable though; it can seem very foreboding after all. 2,800 companies make up the New York Stock Exchange and 3,300 that make up the NASDAQ, and then there is the Amex that has ETF (exchange-traded funds). It can be a lot easier just to give over your problems to someone else.

But, as a swing trader, the ton of opportunities out there means that, if you

know how to screen for the stocks that might fit your criteria, you will be able to use stocks to produce a huge return.

The problem lies in the lack of leverage you can exercise. Due to restrictions and regulations brought on after the Great Depression, unlike futures, commodities, and forex, you can only use a 50% margin, meaning double your buying power. This, of course, does not allow for the rapid growth that some people enjoy. However, it also is a great place to start because it will allow you to make more mistakes, to learn slowly, and to not blow-up your account.

Most people focus on the stock market because that is what they can get the most information about. CNBC, Bloomberg Television, Fox Business–all of these talk stocks during market hours. They talk about companies, IPO's, and strategies. Do you buy or hold? Would you short the market? What options would you look to buy? Every day, a lot of information pours in trying to capture the ear of anyone and everyone willing to listen. So, of course, people gravitate to stocks. And it is a good reason too if these are the things that you would find comfortable working with.

## Cryptocurrency

Cryptocurrency has become the new kid on the block, and it is either going to be tulip mania or the subsequent great disruption that replaces the world economic market. Or the world will figure out a way to synergize with cryptocurrency and it will trade right along with everything else. Either way, at the moment, most people are pretty clueless as to what cryptocurrency even is, to begin with.

Created as an internet-based exchange to do financial transactions outside the central bank, it was once solely in the domain of the black market, paying for drugs, sex, and other illicit things. It has found its way mainstream and into the imagination of everyone, given value by its limited quantity and now by speculators who are pouring in to get a piece of what they see as the great disruption.

Trading crypto is available in several brokerages; however, the cost can be exorbitant as high as 25,000 needed for a single trade. There are companies like Coin base and such that allow you to be fractions of interest of Bitcoin equal to what you want to invest, and thus, allowing you to gain that value if

it increases. Right now, as it stands, Bitcoin and other cryptocurrencies are the most leveraged items, as I think; most brokerage companies do not yet know how to package it.

Though, that does not mean we will not give you some amazing examples to go over and study on the market and prepare should the following rally start or the following bust. Currently, the market is stabilizing, and there are ways to gain value if you do it right.

CHAPTER 7:

# Swing Trading Strategies

For swing traders, there are a plethora of strategies from which to choose. The strategies that you choose to implement are up to you, and they'll depend on your financial goals. Any swing trading strategy should include three important factors: trade point entry, exit level, and stop loss.

Your exit point and stop loss level will depend on your strategy type. They needn't stay at a constant price. A swing trade generally takes place over the course of about one week, and it's essential to keep this in mind. You'll need to efficiently observe your trades and increase the probability that your trades will be profitable.

There are five strategies that will help you recognize quality trading opportunities, and you can apply them to swing trading in any market. We'll take a look at these five highly effective trading strategies:

## Fibonacci Retracement

This pattern is named for its association with the Fibonacci sequence. It can be utilized to assist you in recognizing support and resistance levels, which will allow you to identify probable reversals on charts. With this strategy, you'll plot horizontal lines, using Fibonacci ratios (at 23.6, 38.2, and 61.8 percent) to uncover any possible reversal levels. Stocks have the tendency to repeat a trend before they reverse again, and percentages get retraced. Even though the 50% mark is not part of the Fibonacci pattern, many traders include it, because a stock can often retrace half of a move before reversing.

If a price is in a downward trend retraces to the 61.8% level then rebounds, it might be wise to enter a sell position. The 61.8%% level in this scenario represents a resistance level, and the goal would be to exit the sell position once the price descends to the 23.6% level and rebounds. The 23.6% level would represent of support.

## Simple Moving Averages

Another strategy for swing traders includes utilizing simple moving averages

(SMAs). Moving averages, you'll remember, are taken over a span of specific lengths of time. For instance, a 20-day SMA is the sum of the daily closing prices for each of the last 20 days, divided by 20. The averages are connected by a line that isn't cluttered by other stock chart data.

The length you use (we used 20) is applicable to any interval on the chart. You can apply it to an entire week, or to a span of a minute or two. Keep in mind that SMAs with long lengths do not react as quickly to a change in price as those with short time frames.

When you use the 10-day and 20-day SMA strategy with your swing trading, you'll calculate two averages of these particular lengths. Then, add them to the stock chart. The shorter average is known as SMA (10) and the longer is known as SMA (20). When SMA (10) crosses above SMA (20), it signifies that an uptrend has begun. When SMA (10) crosses below SMA (20), it signifies that a downtrend has begun.

## MACD Crossover

This strategy is an easy way to recognize great swing trading opportunities. A lot of traders utilize this indicator to identify trend direction effectively (and, of course, reversals).

You'll recall that the MACD involves two moving averages that produce signals to buy and sell. When the MACD line and a signal line cross one another, it indicates that it's time to make a move. You'll see a bullish trend (a good time to consider buying) when the MACD line crosses above the signal line. Alternatively, you'll see a bearish trend (a good time to consider selling) when the MACD line crosses beneath the signal line. The strategy involves waiting until these two lines cross one another again, generating a signal to trade in the reverse direction and ultimately make an exit.

## Support and Resistance

Lines of support and resistance are such an integral component of technical analysis and utilizing these indicators as a strategy is wise for any swing trader.

The first thing you need to know is what the current market price is. After that is established, you can look at a stock chart to find a price area where a descending price has abruptly stopped. You've now located a support level. As a swing trader, it's a wise move to enter a buy trade when the price hits

the support line and bounces. (Your stop line should be beneath the line of support.)

Conversely, resistance is a price area that's located above the current market price. When a price is increasing but suddenly stops, you have a line of resistance. Once the price bounces and begins to decrease, it's a prudent move to sell, and place your stop loss above the line of resistance.

Don't forget when utilizing support and resistance in swing trading that the two can swap roles. This will happen if a price breaches your line of support or resistance. The line that was a support level becomes a resistance level, and vice versa.

## Channel Trading

A stock can trend in what's known as a channel. When the trend is strong, and the price vacillates between two imaginary barriers, you can take advantage of the channel trading strategy. It's critical that you trade with the trend in channel trading.

On your stock chart, you can plot a channel around a visible trend. If the trend is bearish, you'll look for the price to bounce from the top line of your channel, and you'll know it's a good sell position. Likewise, if you have a bullish trend, you'll watch for the price to bounce from the bottom line of your channel. It's at that point that you'll know it's a good time to buy.

CHAPTER 8:

# Swing Trading Plan

Just like many other aspiring swing traders, I bet you heard about swing trading, and you were instantly excited about the idea, your fingers are itching to try it out, but you have no idea how to start. Getting into swing trading can prove to be extremely difficult if you do not have the necessary skills and knowledge to succeed because of the fact that most of the traders' encounter failure and consequently lose all their capital within the first year.

You have to come up with a strategy and then make sure that you have the discipline to work hand in hand with it. In the long run, you will emerge victorious where the majority of people have failed.

## Evaluate the Risks

Take a moment before you quit your job or choose to spend all your savings on swing trading to take a look at the disadvantages of swing trading. They include:

## Market Risk

The first rule in swing trading is that the likelihood of losing your capital is significantly high. In as much as some people have made it appear easy, making any wrong move will be a pinch that you will feel in a very painful way, losing your capital. Unfortunately, the nature of the market has always been that lessons are usually learned the hard way. Also, using leverage as well as choosing to conduct your trade on a margin could lead you to encounter more losses than the investment you made.

## Time

It is important to keep in mind that unlike other trades, swing trading is not one where you can get into your position and then disappear, only to reappear a week to check it. Swing trading is trading in real-time, and the truth is that strategies that prove to be successful require continuous monitoring. This insinuates that juggling a full-time job and swing trading may prove to be extremely challenging.

## Taxes

Being a swing trader does not exempt you from paying taxes whatsoever. For instance, in the United States of America, you might get yourself entangled in the last of a pattern day trader. Therefore, make sure that you begin by taking care of any commitments or responsibilities in your financial system first.

## Risk Management

Irrespective of whether your interest is in algorithm service or penny stocks, failing to put in place an efficient money and risk management plan could be very costly to you in the long run. Harry Lite, a successful trader, said that during his entire career in finance, he had constantly seen examples of numerous other traders that he had known being brought to their knees because they did not take risk options into consideration when they started off. If you do not kick risk out of the way, it will kick you.

## Determine What Stocks to Trade

Probably one of the first tips or strategies you will be given in podcasts, user guides, and training videos is that you have to select the appropriate securities. For example, in the case of stocks, large-cap stocks usually have the degree of volatility and volume that you need. Often, these stocks will move between serious highs and extreme lows. This insinuates that you can move towards one direction for a couple of days up to a point where you spot patterns of reversal, and then you can change to the alternate part of the trade.

Selecting the appropriate stocks is a fundamental part of a swing trading plan. A valuable tip in that regard is that your choice of platform is based on effective scanner and screeners. There is basically no use putting in place the best trade plan if you are gambling on the inappropriate lowly priced stocks.

## Choose the Right Market

Swing trading can prove to be extremely challenging in regard to the two parts or divisions in the market. These are the bear market and raging bull market environment. Here, you will discover that even stocks that are highly active will not show similar downwards and upwards oscillations as it is usually the case whenever indices are somehow in a stable condition for months on end.

You will instead find in a bull or bear market that there is a momentum that

usually carries stocks for a long period of time in one direction. From this, you can conclude that the best point of entry, as well as the strategy, is the one that is usually on a long-term basis trend.

Basically, it is at this point where markets are not heading in any particular direction that you get the appropriate environment to swing trade. For instance, if it happens that you trade on NYSE, you will want the index to upsurge for a number of days and then decline for a number of days, after which the pattern is repeated. In as much as the stock might go back to its initial value after some months, you will have had multiple chances to capitalize and take advantage of the short-lived fluctuations.

## Learn to Use the Exponential Moving Average (EMA)

If you happen to go to an institution that teaches swing trading, they will rush you through pivot points, gaps, technical indicators, and alerts. However, probably one of the major principles you will be taught is the exponential moving average.

Basically, this refers to some kind of simple moving average, only that in this case, it increases its focus on the most recent data points. It is used in the right manner; it can assist you in identifying trend indicators and also the points of entry and exit much faster in comparison to the simple moving average. Basically, you can utilize your exponential moving average to deduce your exit and entry plan.

## Learn the Psychology of Swing Trading

The invention of the internet has made it easy for you to download numerous PDFs, audiobooks, and podcasts that will give you types of swing trading, regulations as well as charts to create. Nonetheless, what they usually miss telling you is the kind of mental reaction you should have if your plan does not work.

That being said, you should consider the following tips:

### Come up with a strategy and stick to it

It is almost guaranteed that there will be high moments as well as low moments because that is simply the nature of purchasing and selling in the trade. Nonetheless, let the numbers determine those high and low moments, but do not let your feelings get in the way. Making the decision to sell can

rapidly turn into an emotional choice, especially if you have long-term returns at stake. Therefore, come up with a strategy and abide by it religiously.

## Get the Right Broker and Exchange

Everybody has different priorities and needs, therefore, in as much as a trader swinging cryptocurrency may be well off on Binance or Gdax, a swing trader who may be extremely active in forex might want to opt for Dailyfx. Also, take note that brokers can be more than a place to get quotes and do security exchanges; they can assist you to come up with a diverse portfolio, watch list, and many more.

## Make Use of the News

Markets are usually in continuous motion as a reaction to events in the news. Numerous resources like CNBC and Yahoo Finance will give market commentary and analysis using price action, weekly charts, and volume. Therefore, if used appropriately, the news could assist you to pinpoint dividend stock as well as potential options to monitor, for instance. It could also be instrumental in planning your point of entry and exit.

## Never Stop Learning

The only path to achieve success from a trading point of view is to have an unquenchable, undying, and indefatigable thirst for knowledge and information. There are numerous sources of information to aid you in coming up with effective forex and cryptocurrency strategies. For instance, video tutorials can show you Gann skills as well as how to begin making use of weekly deep, especially in the case of money options.

## Keep a Journal

Having the excel type of journal can turn out to be invaluable. What you can do is that you can just write down the date, position size, price, and a reason why you settled on the given points of entry and exit. This will help you figure out why your breakout strategy for currency pair is not applicable in weekly charts, for instance.

**CHAPTER 9:**

# Understanding the Fundamentals of the Market

Beneath every market and every piece of paper or digital that says you have purchased a stock, forex contract, future, or option is an actual asset, something that has a real intrinsic value to it. For some traders and investors, they look for ways to capitalize on that intrinsic value by trying to figure out something that other traders and investors might not have taken into consideration.

Earnings per Share (EPS), Return on Equity (ROE), Price-To-Earnings Ratios (P/E Ratios), Debt to Equity Ratios (D/E Ratios), Supply and Demand, Interest Rates, Yield Curves, Crop Reports, Yields, Profits and Losses, Monetary Policy, GDP, and more make up some of the terminologies used when we are talking about fundamental analysis.

In technical analysis, the belief is that the market moves based on its own emotions, psychology, mostly that of being fear and greed. Whether that is true or not, fundamental analysis believes that the news that triggers the fear and greed lives within the fundamentals. Each time the forecast changes so do the sentiments of the traders.

## Financial Statements

Before we dig into how to understand monetary policy, take in a natural disaster, and interest rates, let us put our focus on what most of the fundamental analysis was built around–financial statements of companies.

We will first look at the balance sheet. A balance sheet, which is occasionally called “Statements of Financial Position,” details how much a company owns (what assets it has), how much it owes (what liabilities it has), and where the difference is between the two (its equity). The equity represents the shareholders' interest, giving value to what they are investing in. For those, like me, who might have found the whole balance sheet thing a slosh and difficult to stay awake in class, I assure you, there is a simpler way to understand it.

And even if you are not planning on using fundamental analysis in your

trading, it may be important to be able to take in this information and understand it more thoroughly. Plenty of people have gone broke because they did not know how to figure out what was going on. As we will go over in Rules of Trading, knowledge, even unused knowledge, can be important in adding that emotional covering needed to take action and get results.



XYZ Company
Balance Sheet
As at 30 June 2010

| | | |
|---|---|---|
| Current Assets | | |
| Cash at bank | 30,000 | |
| Inventory | 250,000 | |
| Debtors | 75,000 | |
| Total current assets | | 355,000 |
| Non - Current Assets | | |
| Buildings | 550,000 | |
| Plant & equipment | 250,000 | |
| Vehicles | 120,000 | |
| Total non-current assets | | 920,000 |
| **Total Assets** | | **1,275,000** |
| Current Liabilities | | |
| Credit cards | 15,000 | |
| Creditors | 110,000 | |
| Tax Payable | 25,000 | |
| Total current liabilities | | 150,000 |
| Non-current Liabilities | | |
| Long term loans | | 700,000 |
| **Total Liabilities** | | **850,000** |
| Owners Equity | | |
| Capital | 100,000 | |
| Retained earnings | 250,000 | |
| Current earnings | 75,000 | |
| **Total Owners Equity** | | **425,000** |

Though the image we have here may not be exactly what you will get from the financial statements of companies where they will break down earnings per share and such, this is pretty close and a great place to start to understand what value a company is producing.

Assets are given a larger leeway than what is completely shown here. Instead of Cash in Bank, it is often structured as Cash and Equivalents. The equivalent part is based on what is to be considered liquid and steady investments, whether it is bonds, T-Bills, or anything else.

## Commodities and Futures

Fundamental analysis of the commodities market relies a lot on the supply and demand of its underlying asset. When the oil is abundant, the price of oil goes down. When there is a war in the Middle East that could potentially slow oil, the price goes up. The entirety of the commodities market works on this supply and demand methodology. This is why the fundamental analysis of these markets is both easy to comprehend and a lot more difficult to take in fully.

During the current Trade War with China, soybeans have locked limit-down several times, grains and livestock have consistently been overproduced at the expectation that the trade war might come to an end. This has opened up huge opportunities to short these markets, and plenty of people have been selling these markets heavily for the past year and a half on just the fundamental picture alone.

But a person can use other fundamental analyses. Weather patterns are one that comes off sounding like some ridiculous magic trick to predict the markets. But, when it comes to oil, storms on the coast can affect production, driving prices up. Lack of storms can create higher yields and drive prices down, allowing people to speculate accordingly.

Then, you have treasury bonds, federal notes, and other financials that you can trade on the market. These things are weighted by economic and monetary policy as well and how they could potentially affect the interest rates and production on these instruments. Gathering this information oftentimes is economically dependent, which is to say that when an economy is strong, they often like to raise the interest rates because a strong economy can withstand it. When the economies are weak, interest rates are cut to promote growth and debt spending.

## Currency

George Soros, the man who broke the bank of England, did so on a largely fundamental understanding of what would happen with England's Pound Sterling as it began to have issues once it joined the ERM (European Exchange Rate Mechanism). The ERM was a tool to keep European currency fixed instead of letting markets determine the rate of exchange. Germany, being the dominant economy at the time, with the strongest currency, was what the currency was measured against. England, due to a slump in their economy and speculation running against their currency, joined with the promise that they would keep their currency at a certain rate. As it was trading at the bottom end of those rates, speculators had begun to come in and bet against the value of the currency and the resolve of Britain to keep the price of the currency up artificially.

Soros and his Quantum Fund were quietly building a short, but the weaker it became, they quickly took their position from 1.2 Billion to shorting over 10 Billion dollars. As the pound got devalued, England could not do anything to

stop the price from falling, so they were forced to withdraw from the ERM, and bring their currency to the market. Their attempts to strengthen it after that saw it too fail and watched the currency tumble.

This all started from a fundamental understanding and projection of the weakness of the British Pound and understanding the fundamentals of what the government would be forced to do should they not be able to support the price.

Currency is all about the country's economy and monetary policy. What a country does to stimulate the growth of its economy is determining what will happen to their currency.

It took months for those trades to come to fruition, which means that once these markets begin to break, either up or down, you have good solid trading opportunities to take profit over a few days to week or two. There were likely huge trades to be made in the currency market, and these things happen a lot. Not to the caliber of Britain, of course, but they happen, and if you know what to look for and how to get the big picture, you can capitalize.

## Methods for Trading

Buy the rumor and sell on the news. This adage is as important and correct when it comes to trading on a fundamental perspective as anything. Look, fundamental investing allows you to have time, to wait out your position, and to play the fluctuations. But swing trading does not give you that luxury. You need to get results and you need to get them quickly. That makes the news your friend. Playing strong company with great talks, assumptions, and thoughts (what passes for news today), and playing it off of the actual truth, whatever that may be, is the key to successful swing trading when it comes using fundamental analysis.

Another method is riding the wave or good or bad facts and information. The company had a record year, so it is likely going to rally while it is fresh in people's heads. It is a good time to buy and ride out that rally for all it is worth. The stock had a crappy year; it is likely to crash even further as people lose their sentiment of the company and start to devalue it across the board. This creates waves of movement in the stock and allows you to capture a nice piece of profit from it.

Another method to consider is a big news event. The surprise, as it may be.

When something goes good or bad, it is time to buy or sell and ride out the people who have to get into their positions or to get out of it. Either way, the surprise creates a burst of action and if it alters the fundamentals of the company, it is time to alter your position as well and take the rewards for that move.

## The Pitfalls of Fundamental Analysis

Markets, as John Maynard Keynes observed, can stay irrational far longer than you can stay solvent. About 80% of all major trading losses throughout history have happened in regard to some form of fundamental analysis of the market and people taking on a position they thought could not go bad. The entire collapse of the market and nearly the economy in 2008 was a result of that very blindness that fundamentals can change very quickly.

Lehman Brothers were, on a fundamental picture, still a strong company, and Jim Cramer was still telling people to hold Bear Stearns stock right as it got sold for $2 a share. Both of these companies got into the predicament they got into because they made what was a fundamentally strong case that the housing market would never collapse. So, traders sold tens of billions of dollars of credit default swaps against the underlying value of certain bonds. These were considered hugely safe bets, and the people buying the swaps were seen as crazy and even demented speculators that had no clue what they were talking about. Of course, time proved them wrong.

The other major pitfall with fundamental analysis is that a lot of times, it does not give you a point to get out of the trade or into it. This can be a huge problem because you are usually going to be throwing darts at a board when it comes to using this method for choosing your entry and exit points. But, with a few steady rules, you will have a bigger picture and idea of what to do.

**CHAPTER 10:**

# Options Trading

Options contracts on stocks can be bought and sold, in other words, they can be traded. This is where some people get confused (if they weren't confused already). An option is a contract over underlying stock. The value of the option is related to the value of the underlying. However, the option has value in and of itself. People are interested in trading the options themselves, and this is where you can make good profits without having to actually exercise the options and buy and sell the underlying stocks (although you could do that as well if you wanted to). The return on investment or ROI for options is far higher than it is for stocks. We will illustrate this with some examples. So, some advantage of options trading includes:

- It's far cheaper to buy options than it would be to purchase the underlying stock.
- When the price of a stock appreciates, the value of an option goes up as well. If you owned the stock, you would be able to sell it for a profit. However, as we'll see, you can make a much higher ROI on options than you can on stocks.
- One difference between stocks and options is that stocks don't have an expiration date. Options come with an expiration date. As the option gets closer to the expiration date, it's not worth as much because time will be running out on the ability to trade the option or to exercise the rights that come with the option should the stock reach the strike price. There is also less probability that the stock price will move past the strike price and be profitable as time is running out on the contract.
- Options contracts typically last for three months. However, there are other types of options with shorter expiration dates known as weekly and minis.

Options can be thought of as a type of insurance. This is one reason why investors will buy puts. If you own a stock that is $100 a share, you could buy a put at $95 a share, so that if the stock crashed to say $60 a share, you

would be able to sell your shares for $95 a share, the pre-arranged strike price.

You don't have to hold an option to the expiration date. The movement of the stock price may make you want to sell the option before the expiration date. We will explain this in a bit.

**Calls: In the Money and Out of the Money**

The relationship between the strike price and the current stock market price of the underlying stock has a big influence on the price of the option. As the stock market price changes, the price of the option will change as well. When we say an option is “in the money,” this means that the option could be exercised, and you would make a profit. For a call, that means that the strike price is less than the share price of the stock. So, you could exercise the option of buying the shares at the strike price, and then sell the shares on the open market for a higher price. Alternatively, if the option was in the money, you could simply trade the option itself, so sell it.

Let’s say for an example that stock XYZ is trading at $100 a share. Call options will be available for many different strike prices, but we’ll say that there are 7 available for our simple example, three strike prices below the current market price of $100 a share, one at $100 a share, and three at strike prices that are above $100 a share.

If the option expires, the three contracts with strike prices above the share price would be worthless. However, as long as there is still time on the contract, they are still worth money. The reason is that before the contract expires, the stock could still move in a direction to turn the worthless contracts from out of the money to in the money.

Let's say that the option with the $100 strike price (which happens to now match the share price) at 30 days to expiration is $5. Remember, that is the price per share, and there are 100 shares per option contract. So, the premium you have to pay to buy that options contract is $5 x 100 = $500. Options contracts with a strike price that is below $100 will cost more than $5. Suppose we have:

- Strike Price $90. This option is currently trading at $7, so total price is $7 x 100 = $700.
- Strike Price $80. This option is trading at $10, the total price of

$1,000.

- Strike Price $60. This option is trading at $20, the total price of $2,000.

The further below the share price the strike price for an in the money call option is, the more its worth. If you had bought the second option with the strike price of $80, and at the time the share price was close to the strike price, then when you bought the option it was probably quite a bit cheaper since now the stock is trading at $20 over the strike price. Let's say for the sake of example that you bought the option a month earlier for $600. So, you could sell the option now for $1,000, earning a $400 profit on your $600 investment. All three of the options contracts above are "in the money" call options because the strike price is currently below the share price. Now if the share price dropped to $88, then the first option with the strike price of $90 would be out of the money because the strike price would be above the share price. As a result, the premium for the option would drop. Remember, stock prices are currently changing, and the price of the option is dependent on the price of the underlying stock and moves with it (that is why this type of contract is sometimes called a derivative, the price is derived from the underlying asset behind the contract).

For our example, we also have three out of the money call options, which have strike prices above the share price. They are still worth some money because the stock could move to overtake them. The further above the share price the stock price is, however, the less the option is worth. Suppose we had these three options contracts:

- Strike Price $110. This option is currently trading at $3, so total price is $3 x 100 = $300.
- Strike Price $120. This option is trading at $2, total price $200.
- Strike Price $140. This option is trading at $0.25, a total price $25.

If the option expires, all three contracts would be worthless, because you could not exercise the option to buy the shares.

Put contracts are priced in the opposite manner. A put is in the money if the strike price is above the share price. On the other hand, if the strike price is below the share price, then the put is out of the money. Again, we will use the same example with the same share price of $100. For the put contracts, the

three contracts with strike prices above $100 are in the money, and the higher the share price the more in the money they are (so we are imagining that when the contracts were written, the share price was above $140).

- Strike Price $110. This option is currently trading at $10, so total price is $10 x 100 = $1,000.
- Strike Price $120. This option is trading at $20, the total price of $2,000.
- Strike Price $140. This option is trading at $30, the total price of $3,000.

The put contracts with strike prices below the share price would be trading at lower values:

- Strike Price $90. This option is currently trading at $4, so total price is $4 x 100 = $400.
- Strike Price $80. This option is trading at $3, total price $300.
- Strike Price $60. This option is trading at $1, total price $100.

The numbers and strike prices here are not necessarily realistic but chosen for illustration purposes so that you can understand how options trading works.

When the option reaches zero days to expiration, the price of the option is strictly the difference between the strike price and the share price. For simplicity, suppose that the share price was $100 with zero days left to expiration. Let's write down what our in the money calls were priced at 30 days out:

- Strike Price $90. This option is currently trading at $7, so total price is $7 x 100 = $700.
- Strike Price $80. This option is trading at $10, a total price of $1,000.
- Strike Price $60. This option is trading at $20, the total price of $2,000.

Now, the prices will be the difference between the strike and share price:

- Strike Price $90. This option is currently worth $10, so total price is $10 x 100 = $1,000.
- Strike Price $80. This option is worth $20, the total price of

$2,000.

- Strike Price $60. This option is worth $40, the total price of $4,000.

So at zero days, you could buy the option with the $60 share price for $4,000, but you'd have to buy the shares for $60 x 100 = $6,000. So, you're in for $10,000. Then you could sell them for $100 and break even (well actually you'd lose because of commissions) or hold onto the shares hoping they would go up. You want to buy options contracts before they expire. This is because the time value has run out. Time value is part of the pricing and now its $0. Time value is also called extrinsic value.

When there's more time, there's more money

The price of the options contract is affected by the distance between the strike price and the share price. It is also affected by the time left on the options contract. Time value decreases as the expiration date approaches. Or put another way, the price of an option drops as the time left on the options contract decreases. The relationship between price and time left on the contract is exponential, that is the price of the option begins dropping rapidly as the time left on the contract decreases. For example, we could have something like the following:

- Price of an option 90 days out $1,000
- Price of an option 45 days out $500
- Price of an option 30 days out $250
- Price of an option 10 days out $100

The drop-in price as time passes is called time decay. Again, the numbers are for illustration only to illustrate the point. You can watch some real options on the market to see how they actually behave (but remember the prices are also influenced by the underlying stock price). Time value is always decaying.

CHAPTER 11:

# Exchange Traded Funds

Exchange traded funds, or ETFs as they are often called, are a very exciting way to invest in the stock market. There are many advantages to an ETF as opposed to buying individual stocks. You can use exchange-traded funds to track major stock indexes, such as the Dow Jones Industrial Average, the S & P 500, smallcap stocks, midcap stocks, largecap stocks, growth funds, value funds, real estate, gold, stocks in developing markets — you name it, it can be tracked with an ETF.

Essentially exchange-traded funds are like mutual funds, but they trade like stocks. So, you can just buy and sell shares the same way you'd buy and sell shares of Apple or Facebook. Unlike mutual funds, they are not actively managed by a financial guru so the fees are much lower. Also, while mutual funds only trade once a day, exchange-traded funds trade throughout the day like stocks because they are stocks.

## ETFs Offer Automatic Diversity

When you invest in ETFs, you can choose between different indexes and sectors, among other things. So, you get automatic diversity because the fund is investing across a wide array of companies on your behalf. One of the most popular ETFs that are out there is SPY, which is a fund that has invested in the companies that make up the S & P 500. Imagine the difficulty you would have investing in all 500 companies, and then having to adjust the portfolio looking to weight the fund to get more money invested into companies that performed better, and then taking companies in and out of your investments as the makeup of the S & P 500 changed. Of course, this would be a complete nightmare. So why not let someone else handle all of that for you? You can just invest in that fund and then let the market do the rest.

There are exchange-traded funds for many different sectors and investment goals. Finding the right ones for your situation will require a bit of research.

### The Main Companies offering ETFs

There are many investment firms that offer exchange-traded funds, but the

main ones that you should spend your time looking at include:

- State Street SPDR
- iShares
- Vanguard

While you are going to find that these companies offer funds that cover many of the same sectors and indexes of the markets, you are going to want to go head to head comparisons. Two funds that invest in the Dow Jones Industrial Average are not going to give you the same returns, for example. The reason is that while they are invested in the same companies, the weightings of the investments may be different. So, fund A may invest in companies 1,2,3, & 4 by putting 25% of the fund in each company, but fund B might put 30% in company1, 40% in company 2, 15% in company 3, and 15% in company 4. Why would they do that? They might believe that companies 1 & 2 have much better growth potential.

So how are you going to find out which fund is better? It is by studying their past performance. Compare returns for different funds against each other and pick the one that you feel is best. Many times, the differences won't be stark. You will also want to have a look at fees associated with each fund, but for those coming from mutual funds you will be pleasantly surprised, the fees associated with exchange-traded funds are negligible.

**Use Exchange Traded Funds to Invest in Everything**

One of the things about exchange-traded funds is that you can put money into virtually anything. This makes them exciting and can offer an opportunity to build a real diversified portfolio but only by using stocks. For example, you can buy shares of VGIT, an exchange-traded fund offered by Vanguard. This fund invests in intermediate-term Treasuries – U.S. government issued bonds. So rather than buying the bonds themselves, you can buy shares in this fund.

GLD is a fund offered by SPDR that invests in gold. So, you can invest in gold, but do it by owning shares of GLD, rather than going out and buying gold itself.

Let's take a look at funds that can help you build a diversified portfolio that suits your investment goals.

Remember – these are stock.

Although we are mentioning funds offered by different companies, you don't have to go to that company to invest. So, while you could open a Vanguard account, you don't have to. These funds all have stock tickers; you can just log into your brokerage account and simply buy shares in whatever fund you like.

For examples of largecap funds, we'll have a look at offerings from Vanguard. Stock ticker VIG is a dividend appreciation fund. It tracks the "Dividend Achievers Select Index" on NASDAQ.

VUG, on the other hand, is a largecap fund that tracks growth stocks. The ten largest holdings in this fund include Microsoft, Apple, Amazon, Alphabet (Google), Facebook, VISA, Mastercard, Home Depot, Boeing, and Comcast. Notice that by investing in this fund, you're automatically exposed to these ten companies while only having to make one investment.

When you look at each fund, you can also look at the weighting the fund has by sector. For example, this Vanguard fund has 34.9% invested in technology, 20% in consumer services, and 13.9% in industrials.

Different funds that cover the same general goal will have different weightings by sector and different companies in their portfolios, although there may be a lot of overlap. These differences will impact the performance of each fund.

VTV is another largecap offering by Vanguard. It is listed as a largecap value fund. The holdings in this fund are quite different, reflecting the different goals of the fund. This time the top 10 holdings are: Berkshire Hathaway, JP Morgan Chase, Johnson & Johnson, Exxon Mobile, Proctor & Gamble, Bank of America, Cisco Systems, Pfizer, and Intel.

VOT is a midcap growth fund managed by Vanguard. The holdings on this fund include Roper Technologies, Red Hat, and Twitter, among others. Vanguard considers it to be in their highest risk category, but if you are looking to add more aggressive growth to your portfolio, it's an option to consider as opposed to making the investments yourself. Vanguard also has a few smallcap funds. You can also invest in microcap ETFs, IWC is a microcap fund offered by iShares.

Tracking index funds is one of the best ways to use ETFs. We've already mentioned SPY, but there are many other stock indexes that you can track to

invest in different areas. Some of the other index funds and sectors you can track with ETFs are:

- NASDAQ Composite Index: Mostly technology stocks traded on NASDAQ.
- Wilshire 5000: Designed to track the entire stock market. Not as popular as SPY.
- S & P Midcap 400, Russell MidCap, and Wilshire US Midcap: Track midcap companies.
- Russell 2000: Tracks smallcap companies.
- Sector funds: Track energy, healthcare, finance, utilities, etc.
- Emerging markets.
- Real estate.
- Corporate bonds, including junk bonds.
- Precious metals, including gold and silver.

## ETFS and Dividends

One question many people have does ETFs pay dividends. The answer is yes, they do. So, if you are looking for a way to build an income investment portfolio based on dividends, exchange-traded funds can be part of that process. Dividends are paid out quarterly. The proportion of dividends you receive will depend on what percentage of the fund you own. So, if you own 0.1% of the fund, you will receive 0.1% of the dividends.

CHAPTER 12:

# Different Swing Trading Systems

Huge profits are made when there are large swings in the market. A lot of traders are always searching for the best trading systems and ways they can develop these systems to suit their trading styles. Fortunately, there is a process that any trader can use in order to discover their preferred trading mode and system.

Novice traders are often excited at the prospect of swing trading. They are usually extremely eager to get started thinking about all the money out there waiting to be made. People are generally attracted to the markets because of the opportunity to make money on a regular basis.

### Perseverance

At the onset, most traders believe that trading is easy and straightforward. Often there is a story about a successful individual who managed to hack the markets and earn a fortune. However, with time, some realize that things are not that easy or straightforward. Some will quit, and only the most determined will remain.

Trading requires hard work and dedication. It also requires patience as well as experimenting with different styles until a trader identifies one that suits him the most. Take some time and do your research. Learn as much as you can about the markets. However, do not start searching for the easiest way out because nothing in life is easy.

Other important factors that affect the choice of a trading system include money management, risk control, and positive expectancy. When a trader is well aware of these crucial trading aspects, they begin to think about incorporating them into a strategy and trading system. With a good system and plan, a trader is able to fit in a trading plan that works for him or her in the long term. Get-rich-quick thoughts disappear pretty fast as reality hits home.

## Identifying Best Strategies for Profitability

There are plenty of small but crucial things you can do as a swing trader to improve your success. For instance, you could begin by identifying the location of the swing low and swing high positions on a particular chart. If you are able to note the swings accurately, then you will be able to place accurate trades, which will increase your profitability greatly.

## Swing Highs and Swing Lows

Swing highs and swing lows are also referred to as SHSL. This refers to the price action where multiple bars and candlesticks are joined together so that they are viewed as a single move in a given direction. The movement is generally known as a leg. Sometimes, it is also known as swing or a move. This is where the term swing originates from.

The swing represents a single part of the price action in a particular direction. This swing is always closely countered by a swing in the opposite direction. Sometimes, this movement is sideways rather than back and forth. As it is, price moves back and forth in the market. In other words, it swings back and forth and hence, the term swing. The highest point of a swing is the swing high while the lowest point is known as the swing low.

## How to Identify Swings

The market is constantly in motion. A swing occurs when there are two succeeding lower highs and lower lows or when there are two consecutive higher lows and higher highs. Remember that swings appear in all manner of shapes and sizes. However, the rule on how to identify them is very simple. Simply look for consecutive higher highs and higher lows or consecutive lower highs and lower lows.

Swings are bullish if the general movement is upwards and bearish if the general movement is downwards. Sometimes, a new low will appear when the trend is upwards. At other times a new high will appear when the general trend is headed downwards. When this happens, you should not be worried or concerned as these are considered false swings. Unless there are consecutive highs or lows, then ignore everything else.

## Using Swings to Increase Profitability

We have learned how to identify swings in the market. Now we need to apply this knowledge in order to be profitable. The first step is to place your stop loss points. This should be slightly above the higher high for a bearish

situation and below the lowest low in a bullish situation.

Also, the correct and accurate swing highs and swing lows provide an opportunity to draw Fibonacci extensions. These lines will enable you to identify target areas of high probability. As such, it becomes possible to place our take profit and stop loss points on our charts. Remember Livermore? The gentleman said to be one of the most successful traders ever? Back in 19 29, he managed to make about $100 million. In today's terms, this is equivalent to almost $1.4 billion. That is a lot of money, even for an experienced trader.

If you learn about the best trading systems, then you too can make plenty of money in today's prevailing marketing rates. You could always trade with the market trend or against it. Remember that it is always advisable to follow the trend rather than the opposite. Only oppose the trend if you are an experienced swing trader and know what you are doing exactly. Key will be identifying the best entry points into a trade and the best places to collect profits as well as exit trades.

Before you begin your swing trading ventures, ensure that you come up with a tested plan that you can implement. Therefore, test your preferred systems and strategies and ensure that they are working as desired. This way, you will be able to prepare appropriately and trade successfully and profitably over time.

Swing traders are always searching for conditions in the markets where stock prices are looking to swing either downwards or possibly upwards. There are numerous technical indicators that are available to enhance your trades. Indicators used in swing trading are basically essential in identifying trends in the market between certain trading periods.

These trading periods that range anywhere from 3 to 15 are then analyzed using our technical indicators in order to determine the presence or otherwise of resistance and support levels. If these have actually materialized and are clearly visible, then we can proceed to make other determinations.

At this stage, you will also need to determine whether any trend is bullish or bearish. You will also need to be on the lookout for a reversal because without one, you will not be able to enter a trade. Reversals are also referred to as countertrends or pullbacks. As soon as we can clearly point out the reversal, then we can easily identify the appropriate entry point.

The entry point should be the point where the pullback is just about to come to an end, and the trend is about to pick up again. Being able to determine these points is really crucial. This same approach is the very same one used by Jesse Livermore to earn his wealth.

## Best Indicators for Swing Traders

There are plenty of indicators that traders and investors use to enhance their trades. We shall check a few of these and discover the best way of applying them to our trades in order to maximize profitability. It is crucial to understand that none of these indicators will make you profitable from the onset. Therefore, do not stress over trying to find the best or most profitable trade indicators. Instead, focus more on learning about a couple of extremely effective indicators as well as the strategies and methods used alongside them. Experts believe that trading strategies are more profitable when you apply the few indicators that you have mastered.

### 1. Moving Averages

Moving averages are among the most important trade indicators used by swing traders. They are defined as lines drawn across a chart and are determined based on prices. Moving averages are really to understand, yet they are absolutely useful when it comes to trading the markets. They are extremely useful to all kinds of traders, including swing traders, day traders, intra-day traders, and long-term investors.

### 2. RSI – Relative Strength Index

Another crucial indicator that is commonly used by swing traders and other traders is the RSI or relative strength index. This index is also an indicator that evaluates the strength of the price of a security that you may be interested in. The figure indicated is relative and provides traders with a picture of how the stock is performing relative to the markets. You will need information regarding volatility and past performance. All traders, regardless of their trading styles, need this useful indicator. Using this relative evaluation tool gives you a figure that lies between 1 and 100.

### 3. Volume

When trading, the volume is a crucial indicator and constitutes a major part of any trading strategy. As a trader, you want to always target stocks with high volumes as these are considered liquid.

How many traders, especially new ones, often disregard volume and look at other indicators instead.

While volume is great for liquidity purposes, it is also desirable for trend. A good trend should be supported by volume. A large part of any stock's volume should constitute part of any trend for it to be a true and reliable trend.

Most of the time traders will observe a trend based on price action. You need to also be on the lookout for new money which means additional players and volume. If you note significant volumes contributing to a trend, then you can be confident about your analysis. Even when it comes to a downtrend, there should be sufficient volumes visible for it to be considered trustworthy. A lack of volume simply means a stock has either been undervalued or overvalued.

**CHAPTER 13:**

# Portfolio Management

The term is used to refer to the process of investing, spending, saving, and budgeting; it is also used to refer to the way capital is used for personal or group usage. The other words used for money management includes portfolio and investment management.

Money management is simply how you handle all the finances and how you handle all your long-term goals. It also involves how an individual manages their investment in order to make great profits. When you do not practice good money management skills, whatever money you have might look little for your lifestyle.

To have a good start when it comes to money management, you need to know where you are. This is in terms of your financial capability and power; like assets and liabilities. Assets include your investment and bank accounts, any properties and retirement accounts.

Liabilities are the things that you need to pay like credit card balances, any loans like student loans and car loans and any mortgages and outstanding debts. Your net worth is when the value of your assets is more than your liabilities. And when your liabilities are more than your asset it is considered a net loss or negative net worth. When you have great money management skills and approaches, getting a net worth will be easy.

Ensure that you set your goals in order to achieve great money management. Your goals will create a plan on how you will manage your money. When you have your goals set, it will give clarity on which are priority expenses and which you can let go. You will need discipline and effort in order to achieve all your efforts. For instance, when you plan to buy a car worth $20k, you will need to work harder and smarter and reduce your expenses. You will need to do all that as compared to someone whose budget car is $10k.

When you have your budget drafted and set, remember to have adjustments. When you prepare a budget, you have the chance to know all the expenses that you have. For instance, you can set aside $150 that can be for entertainment and any miscellaneous expenses after payment of all expenses

and managing your debts. Good advice is when you get a pay increment, do not use the additional income for your entertainment but add it into your savings.

When you have a target to meet different goals, you are likely to have the money in different multiple accounts. A good example will be to ensure that you have a separate emergency fund so as not to get tempted for any impulse buying in the future. You will also have different strategies and that will be for different goals. You will be aggressive when you start investing in different stocks that you will not need to invest money in like 20 years. You also need to have an account that has no risks like a savings account that that can be used as emergency funds when the need arises. When you have such multiple accounts, you can use a software program to help in tracking the several accounts. A good one can be quicken; it will track all your expenses and the savings goals.

For any investor, their intention is to have a good net worth, so it will come a time when they will need the services of professionals like financial advisors. The advisors are known to offer brokerage services, money management plans, and private banking. The advice is best for retirement, estate planning and other benefits.

When you are in business, it seems complicated when there is a need to manage cash flow and different accounts. When you are able to strike a balance, you are guaranteed to be successful. If you are not able to manage all that, you will need to get the services of an accountant or bookkeeper to do all that for you. Even if you will outsource, you need to know the basics of money management and bookkeeping. You will need to know simple tasks like interpreting bank statements, understanding accounts payable and receivable, credit, and tax forms.

Money management will also involve knowing more about debit cards, checks, online payments, cash, and credit cards when it comes to payment options in your business. You will also need to have a planned and established payment plan and a debt collection system just in case of non-payment.

Opening a bank account is another way to help in money management, you need to choose a name and have an operating and registered business. Make sure you get more information on credit card facilities, a debit account, and

any other additional services. Another important concept is to ensure that you have extended credit facilities in case of late payments.

This can be planned for 30-6-90-120 days after a product is delivered or a service is rendered. You can motivate your customers to pay on time by extending discounts. Before the credit extension, ensure that you have done a proper background check, especially with large amounts. Even when there is credit extension, there are times where you will end up not being paid or not aid in time.

Before you can know of the best skills for money management, you will need to ask yourself some questions. What is your weekly or monthly income? Do you have a list of expenses that you need to pay? What you need to know is that money management is a skill used in life and cannot be taught in school. These skills cannot be learned in school but mostly from life experience.

- Have the ability to set a budget. This will help in tracking your expenses and the way you spend money. What do you spend a lot on, is it entertainment, clothes, or food? What is the tendency of overdrawing money from your bank account? If all that is yes, then you will need to set a budget. Look at your monthly statement and write down all the expenses in categories. You will be surprised by how much you are wasting.
- Spend what you have wisely. Always have a shopping list when you go shopping. Do you have a habit of looking at the product prices before putting it in the shopping basket? If you have coupons, ensure you use them. There are mobile apps and online resources that can help in focusing on your expenses. Do you know how to monitor your expenses? When you are not attentive to this advice, you will end up losing your hard-earned money.
- Always balance your books, do not always have a tendency of getting your bank balance online. When you depend on online information, there will be an issue when you want to know the balance on what you are spending at that particular moment. Be accountable and ensure you record all your expenses and this will help in avoiding any over-spending.
- Set a plan that will help in accomplishing anything that you put your mind. When you have a financial plan, you will be able to

track how you are spending your money.

- Always think like an investor. When in school, you will not be taught how to handle money but largely on how to invest your money and have wealth growth. Learn to grow your savings and to invest at an early age. Turn that $100 to $200, $400, $800, and more. Having a stable financial future means that you have invested and grown in your money. When you start thinking like an investor, your money will grow. If you have a spouse or partner ensure that, they also know about your financial goals. If you possess a joint account with your partner or spouse, always work together and agree on the financial goals. When you are stuck or in doubt, consult a financial adviser and learn a lot of how to invest.
- Save your money, always be focused, and committed when it comes to saving money and this will guarantee a better future. This will help in improving your financial position and even make it better. The first step is to have the decision to do that and this will help improve your-managements-kills.

Portfolio management will help any individual in living on a budget and within their means. You will be able to look for great bargains and avoid any deals you believe that is not good when making a purchase. When you start getting a stable income, you will need to know how to invest because that will help in attaining your goals. And when you practice proper money management, you will meet all your goals and plans. There is the importance of money management:

- You will have better financial security: When you are careful with your expenses and savings, you will end up having enough for your future. Your savings will help in giving the proper financial security and you will be able to take care of yourself in case of emergencies. With your savings, you will not need to use your credit card in case of any issues.
- When you have proper money management and manage to save, you will be able to get opportunities and invest in the business. It will be frustrating to know of a great opportunity and not having enough funds to invest.
- Your credit scores will be determined by the way you manage

your money. When you have high credit, score means you have managed to pay your bills on time and you have low-level debt. A high credit score means you will have more savings and you will be charged low interest when making purchases like cars or mortgages.

- Money management helps in reducing stress; this will happen when you start paying your bills on time. When you are late in paying your bills, you will encounter stress. Stress will bring about health problems like insomnia, migraines, and hypertension. You need to be aware of how you will handle money management, this will help in having extra cash and manage to save and manage a stress-free life.
- When you adapt great money management skills, you will not waste money on unnecessary things. When you do not know how you are spending your income, it will be easy to be in debt. When you use your spare time effectively, it will help in managing your money. For instance, when you spend time with your friends and family members, ensure that you are aware of your budget.
- Peace of mind is guaranteed when you have better money management skills. When you a stable income and better savings, you will be able to handle any financial issues with confidence that all your needs can be handled perfectly.

**CHAPTER 14:**

# Psychologically Approach toward Success

One thing you should note about the investment industry is the fact that it is filled with complex terminologies and very busy charts. What is unfortunate is that most beginner traders confuse complexity as a requirement for one to succeed in the market.

Well, the truth is, you don't need any complexity in trading. There is no need for complex charts, data, or even indicators for you to make a good trading decision of investment. It is often easy to get caught up in intellectual pursuits that we allow that to override our money-making efforts completely.

It is important that you stay simple when trading. Don't let being right or the desire to get great calls override the real reason why you are in the market. Being successful in trading does not mean complex screens, methods and tools, several technical indicators, or days staring at the screens.

What you need is the ability to adjust your opinion, have the fortitude to accept when you are wrong, get quality information, and have the ability to find confluences of support, resistance and unique thoughts about them.

How to Systematize Success:

## Plan–Do–Check–Act

When you are trading, one most important thing is to ensure that you have a trading plan.

**Plan:** what you need to do is plan a change and then tests it. The main aim is to determine whether there is need for modification of the process for things to be more beneficial.

**Do:** another thing is for you to implement that change and then try to test it on a small scale to ascertain the outcome.

**Check:** once you test the change, the results you obtain are relevant in determining what the important lessons are. Here, it is critical to note what went right, wrong and whether the changes worked out well or not. You can know how the change impacted the process by checking a 30,000-foot-level

control chart and carrying out hypothesis tests.

**Act:** finally, it is important to note whether you would like to adopt the change, abandon it or redo the whole PDCA cycle. When you do not get any significant value from the process as you had initially anticipated, then it is safe to terminate the decision. If the change is expected to create adherence issues or bring about minimal improvements, then it is safe to abort or repeat the cycle. In other words, you are repeating the process because the amount of improvement is not as much as you had anticipated. However, you might have already identified opportunities for change enhancement.

Once your main objective is met, then the final thing is for you to standardize the whole process. The power of this process lies in its simplicity and inductive use of logic. While it is also easy to understand, it can be challenging to attain on an ongoing basis mainly because of difficulty associated with analytical judgment of the hypothesis.

## Plan: Setting your goals, targets and strategies

When you start trading, there are so many questions you need to ask. The truth is, with all the information out there, it can be challenging to decide where to begin. However, you should set goals, targets and strategize, but chances are that most goals traders make are the wrong kind.

The goals that you set, in the beginning, will help determine whether you are going to make money or lose money. Therefore, it is important that you make your goals about the process and emulating all the traits professional traders portray.

The first one is by ensuring that you have a plan. In business school, we are taught to start any business with a business plan. If you didn’t know, trading is a business! This means that each time you trade, you have to trade according to a well-thought-out, and calculated plan.

Your trading plan should tell you how to enter trades and exit trades. It should include ways you intend to manage money. In other words, the whole plan should be well-detailed with risk parameters to look out for, markets to be traded, position size, whether you intend to use filters as trade signals, the market environments to trade and how you intend to determine such things as trends and ranges among others.

In short, your goal should be to come up with a plan before you trade.

## Do: Setting up your trading routine

When a certain dollar amount is your goal, you will ensure that you push to achieve that goal irrespective of opportunities being present or not. The truth is the market does not present statistical probability of trading opportunities always. In fact, you will be better off sitting on your hands in most instances.

However, this does not really work well for most people. Most people are looking to do something continually. The thing is, in the market this can be slow and risks eroding your profits during good trading times.

Understand that trading when the times are slow or when you make impulsive trades that are out of scope requires your immediate attention. Therefore, one of your goals should be to be disciplined as much as possible so that you only trade as outlined on your plan.

## Check and act

One thing that you need to note is that a complex strategy can be quite alluring. So many people think that just because something is complex it is highly likely to work. You need to avoid being fancy with your analysis and trading strategies. Don’t make your winning plan complex.

What you need to do is check the plan you have that it is realistic and simple, and then act on it. If you fail to check and act, chances are that you will destroy the profitability of it. If you truly like the stock market, then ensure that you stick to trading stocks.

The bottom line here is for you to ensure that you are not constantly tinkering. This way, your performance will improve. Instead of always trying to switch the market, analysis method or the strategy, simply stick to your plan, and check through it and action. However, if you feel the need to rework it occasionally, ensure that you keep all revisions simple so that you don’t end up making things overly complex.

## Set Up a Trade Journal

When trading, one of the most impactful and highly leveraged activities traders adopt is keeping track of their trades with the help of a trading journal. When you keep a trading journal, you ensure that you are keeping track of your experiences in the market so that you can come back to them for lessons.

When you develop a trading journal/system, the most important thing is to save ideas in then and then test results. In other words, when you enter a certain position, you simply need to record everything about the trade. Ensure that you capture all your thoughts and contemplations when making a trade. This means that when you have a “what was I thinking” moment in the future, all your answers will be found in the journal.

When setting up a trading journal, ensure that it has the following; trade date, number of shares and the reason you chose them, stock symbol, whether they are sold long/short, what triggered the entry signal and exit signal, where was your initial stop, did you move your stops and why, what was the reasons for your exit position?

Also, when you set up the trading journal, it is important that you keep track of not just your trades but beyond. For instance, the internet articles that influenced your thoughts, what the leading and lagging industries were and the charts that helped you through the process.

Even though keeping a journal it is critical if you regularly check it. Therefore, set aside some time each week or month to just go through your trades to identify key mistakes and missed opportunities. Ensure that you are brutally honest with yourself by simply stepping back, taking a cold and hard look at the decisions you made when trading.

In short, your trading journal should be the soil that nurtures your growth.

CHAPTER 15:

# How to Master the Market

Swing traders differ from investors in various ways. Investors buy shares and hold on to them for lengthy periods of time. They often hope to generate annual returns, like 10% to 20% per annum on their investments. This is a different approach from traders who enter the markets and exit after a very short while. Traders hope to make small but frequent profits in the course of a few days or weeks. Their aim is to make between 10% - 15% or more each month. This translates into big returns over time.

Swing traders use both fundamental analysis and technical analysis to determine stocks with an upward trend and with momentum. A swing trader's work includes the identification of financial instruments such as stocks that have a well-defined trend.

The aim of a swing trader is to purchase securities when the prices are low, hold the securities for a couple of days, and then exit when the prices are high. This way, they exit trades profitably, and it is the method that they use to earn their profits. It makes sense to enter trades when prices are low and then sell when the prices go up.

As a retail trader, you may be at a disadvantage compared to professional traders. Professional traders are generally more experienced, have a lot of leverage, access to more information, and pay lower commissions. However, you do have some advantages in some instances because you are not limited to the risks that you can take, size of investment, and types of trades. As a retail swing trader, you need to ensure that you have all the knowledge necessary to take full advantage of the markets.

## Trading Techniques

Swing trading techniques are easy to learn. They are also straightforward and simple to demonstrate. After learning these techniques, it is advisable to put them to practice for a couple of days until you get confident enough to trade live. If your practice trades were largely successful, then trading the real markets will also likely prove to be successful.

As a swing trader, you do not have to focus your energies using complicated formulas and learning complex techniques. You also do not need to buy and hold stocks or other financial instruments like currencies. Instead, you only need your trading charts.

## Beginning of the Trading Day

As a swing trader, you need to be up early before the markets open. Most traders are awake by 6.00 in the morning and start preparing for their trading day. The few moments just before the opening of the markets are crucial as you get the feel of the market.

One of the first things that you need to focus on is finding a potential trade. You should spend your time finding securities that are on a positive trend. Another thing you should focus during these early morning moments is creating a watch list of stocks and securities. Also, check out all your other positions.

## Current News and Developments

You should take time in the morning to catch up with the latest developments and news, especially those that directly impact businesses. One of the best sources of financial and business news is CNBC, which is a cable news channel. Another great source of market information is the website www.marketwatch.com. This is an informative website that provides the latest and most reliable market news.

As a swing trader, you need to be on the lookout for three things in the news. These are different sentiments in various market sectors, current news reports such as earnings reports, and the overall market outlook. Are there sectors that are in the news? Is the news considered good or bad? What significant thing is happening in other sectors? If something significant or of concern happens, then you are likely to come across it in the news.

## Identifying Potential Trades

So how do you find trades that you'd be interested in? As a swing trader, you may want to find a catalyst. A fundamental catalyst will enable you to enter a trade with sufficient momentum. Then all you will need is technical analysis to confirm your exit and profit points.

### 1. Special Opportunities

There are different ways of entering the market. One of these is to find a great opportunity with so much potential. Great opportunities can be found through companies planning an IPO, those ready to file for bankruptcy, situations of takeovers, buyouts, insider buying, mergers, acquisitions, and restructuring. These and other similar events provide excellent trading opportunities, especially for swing traders.

To find these opportunities, you need to check out the SEC website or filings from companies. Certain forms such as 13-D and S-4 contain all the relevant information that you need. You can also subscribe to the website www.SECFilings.com so as to receive notifications whenever companies file reports. While these opportunities carry some inherent risks, the possible rewards are too great to ignore.

### 2. Sector or Industry Opportunities

Apart from the rare opportunities, we also have opportunities that are specific to a given sector. These are opportunities that you will find on certain websites regarding sectors whose performance is well above average. For instance, we can determine that sectors such as energy are doing exceptionally well by observing energy ETFs. There are specific sectors that pose a high risk but have high returns and can be very profitable.

### 3. Chart Breaks

We can also rely on chart breaks to find opportunities. Chart breaks are especially suitable for swing traders. Chart breaks are really stocks or securities that have been traded so heavily such that they are very close to significant resistance or support levels. As a swing trader, you will search for opportunities out there by identifying patterns indicating breakdowns or breakouts.

These identifying patterns can be Gann or Fibonacci levels, Wolfe Waves, channels, and triangles. However, please note that these chart breaks are only useful when there is a massive interest in the stock. This way, you can quickly enter and exit trades. Therefore, whenever you note this chart breaks, you should also focus on factors such as price and volumes.

## Securities Watch List

One of the things that you really should embark on is building a list of stocks or other securities to watch closely. The stocks that should constitute this list

include those with a great chance at high volumes and upward price movement. It should also include stocks with a significant catalyst.

## Checking Your Current Positions

It is essential to keep tabs on your current positions. You probably have other trades so take a look at these and see if there is anything needed on your part. This is something that you should focus on early before the trading day begins. You should assess these positions with the benefit of foresight based on the information obtained from news sources and online sites. See if any news items will affect your current positions.

Checking this out is pretty easy and straight forward. All that you need to do is to enter the stock symbol into websites such as www.news.google.com. This will reveal plenty of essential information that you need to be successful. Should you come across any material information that can directly affect your trades, then consider what you should do, such as adjusting the different points like take profit and stop loss.

## Market Hours

Now that the markets are open, it is time to get busy as a trader. During this time, you will mostly be trading and watching your screen. Check the market makers of the day and also be aware of any fake bids and asks.

Find a viable trade and apply all the skills and knowledge you have acquired to identify entry and exit points. There are plenty of techniques you can apply to arrive at these points. Think about Fibonacci extensions, for example. These can help you identify entry and exit points; you can also use price by volume and resistance levels.

As the trading day proceeds, you may need to make certain adjustments to your positions. These adjustments will depend on a number of factors. However, it is not advisable to adjust positions once you enter a trade, especially if you are planning on taking on additional risks. If you have to make adjustments, then it is better to focus more on adjusting the take profit points and stop loss levels.

## After Hours

Most swing traders are largely inactive after the regular trading day is over. At this point in time, the market is not liquid at all and the available spread

not suitable to enter any trades. Therefore, take this time to do some evaluation of your earlier trades and your positions. Examine your trades and see where you could do better. Focus on any open positions you may have and consider all material events that could have some effect on your positions.

CHAPTER 16:

# Beginners Mistakes and How to Avoid Them

Swing trading, like any other type of trading, carries some risk with it. Anyone can mess up a trade, but beginners are more prone to mistakes. In this short guide, we will attempt to lay out some common mistakes made by beginning traders and how you might avoid them.

## Having Unrealistic Expectations

You may be getting into swing trading, thinking that you can make a full-time income. The truth is that you can. However, it's not something that is going to happen automatically. It takes time to learn the tricks of the trade and to learn how to trade to make profits consistently correctly. You should also not have unrealistic expectations about the amount of money you will earn in the beginning. You probably aren't going to make a million dollars on your first trade.

## Not Treating Trading Like a Business

Some people view the stock market as a gambling casino. But it's not a gambling casino at all. They are rooting in the mathematics that underlies the operation of markets. In any case, when you become a swing trader and intend to earn a full-time living from it, this is a business. You need to treat it the way that you would treat any other business. Many new traders think of it in terms of making a fast buck without balancing the books and taking it as seriously as it needs to be taken. If they opened a McDonald's, they'd be far more careful. You should treat it exactly the way you would if you opened a restaurant or a consulting firm. Most people would approach such ventures with far more care, and if you can do so with your trading business, while you might not make a million dollars the first month, you will be on a sustained path to deriving real income.

## Being Too Anxious

Being a successful swing trader requires patience. You will hold onto your investments for several days to possibly weeks, and some swing traders even hold onto their trades for months. This can be difficult for impatient people.

Another way that being too anxious can get in the way is that anxious traders simply go out and make trades that feel good but have no analysis behind them. That might work out now and then when you get lucky, but over time, that is a recipe for failure.

## Failing to Plan

This brings us to our second beginner mistake – failing to plan. Before going into a trade, you should study the security you hope to trade and make a plan to carry out the trade. Your plan should include your entry point, how much profit you will take, how much loss you're going to accept, and your exit plan. You shouldn't go in on a hunch and should instead study various securities to see which ones will work out to serve your interests the best.

## Looking for a Get Rich Quick Scheme

Many people go into trading, thinking that they can get rich quick. This simply isn't true. Yes, sometimes it happens. But most of the time, it doesn't. People are surprised to find out that trading takes work and time invested in study. It is not the get rich quick scheme or gambling casino that people imagine. If you are looking for a get rich quick scheme, you are setting yourself up for losses, because your mentality will lead you to try and cut corners in search of profits. When you do that, mistakes are likely to be made.

## Being Put Off by All That Math

There is a fair amount of math involved behind the scenes, and wall street is full of people with math and physics degrees that are working behind the scenes on formulas, coming up with new derivatives contracts, or coming up with new tricks like individual moving averages. However, as a trader, you don't need to get involved at that level of detail. While you will have to get some comfort level with math, it is not necessary to go all in. Take your time and study slowly. Nobody is going to start the first day and understand all the charts and moving averages. However, to successfully trade options, the trader must be able to use and understand the charts. You don't have to understand how moving averages are calculated, but you need to understand how to look at the charts and understanding what they mean on a practical level.

## Losing Control with Leverage

Swing traders on the stock market have access to leverage. That is, you can borrow from the brokerage at a 2:1 ratio. This can get some people into trouble. There is no faster path to debt than playing with other people's money. Leverage can also lead some people to take risks that they wouldn't otherwise take. At the beginning of your swing trading career, you should consider trading without using leverage. Save that until you're more experienced and less likely to make huge, costly mistakes.

## Not Relying on Multiple Indicators

One common mistake made by beginners is to see a buy or sell signal in one indicator and get anxious and either enter or exit their position. Sometimes that will work, but to protect yourself, you need to use more than one indicator before making any moves. The cold reality is that no one indicator is right all the time. When you see a buy or sell signal, confirm it before making your trade.

CHAPTER 17:

# Tools

If you want to swing trade, you're going to need to open a brokerage account. A brokerage is just a company that plays the role of middle man.

The brokerage maintains an account for you and keeps records of your trades. It also allows you to deposit funds that can be used for trading and allows you to take out your profits. They will also take care of the necessary tax forms on your behalf. The central role of the broker is to execute trades. So when you want to buy or sell shares, the broker will do that on your behalf. You can also borrow shares from the broker, or borrow money to make larger trades if you have a margin account.

Before choosing a broker, you're going to want to decide what financial assets you want to trade. Some brokers might not give access to all types of securities. This might be more important if you are interested in trading Forex or cryptocurrencies, finding good stock brokers is reasonably straightforward. However, many of the leading stockbrokers will also provide access to trading Forex, crypto, and other assets.

## Types of Accounts

The first thing you're going to want to consider is whether or not you want a full-service brokerage or a discount broker. A full-service brokerage is one that provides professional financial advisors to help you make your investment decisions. Some may even be able to assist you with swing trading. However, be aware that commissions are going to be an essential factor when you trade frequently. One thing to set up a periodic investment in an index fund, and quite another to be making several trades a month. For that reason, most swing traders are going to be interested in discount brokers.

Besides looking into whether or not you go with a discount broker, you are going to want to determine whether or not you open a cash account or a margin account. By law, to open a margin account you must deposit $2,000 up front. The advantage to opening a margin account is that if you qualify, it will enable you to borrow money and shares from the broker. This opens up the possibility of shorting a stock, or using leverage in order to purchase

more shares than you could with your cash alone. Typically, swing traders can get 2-1 margin, which means if you deposit $2,000, you can buy $4,000 worth of stock.

Examples of popular brokerages include E-Trade, Tasty works (particularly useful for trading options), Robinhood (zero commissions), TD Ameritrade, along with more traditional brokers such as Fidelity or Charles Schwab. In each case, check to determine if you can trade the financial assets you are interested in trading. While it's easier to have one account, if you are going to have diversified trading such as trading stocks, options, and Forex, you might have to get a different broker to manage your Forex trades. Of course, it's advisable that beginning traders stick to one asset, at least at first.

## Expert Advisors

Full-service accounts used only to include those with a professional financial advisor. However, over the past decade or so, a new type of full-service account has developed that relies on software or "robot" advisors to manage its accounts. These often go by the name "expert advisor." This type of account is managed for you, and the robot will pick stocks/options or currency trades to buy and sell and when to sell them. That may or may not appeal to you, the idea of having a robot running your trading account might be a bit intimidating.

## Retirement Accounts

Swing trading methods can be used to grow retirement accounts, such as an IRA or a 401k. However, keep in mind that you will probably be put in a position of reinvesting profits from swing trading toward the purchase of more assets inside the retirement account. So it would not be traditional swing trading in the sense of earning profits in the here and now to cash out. If you cash out early from retirement accounts, you're going to lose a lot of benefits because of heavy taxes and early withdrawal penalties.

However, swing trading is an intriguing way to grow your IRA from the inside. By law, you can only deposit about $5,000 or so per year, depending on age. But using swing trading, you have the potential to grow the account by earning profits inside of it rapidly. They can then be used to purchase more shares. If you are good at swing trading, you can double or triple the amount by which the account is growing per year, without violating any laws

regarding contributions.

It’s always a good idea to have a retirement account as a part of your overall portfolio, so swing trading inside the account can be part of your broader financial strategy.

## Opening a Brokerage Account

Opening brokerage accounts is a pretty straightforward process it’s like signing up for an account with anything online. Enter your name, address, and bank account information. Some brokerages may require that you make an initial deposit to get started. If you are a beginning swing trader, consider using Robinhood. This is an app-based trading platform that is somewhat skeletal, but also very easy to use. With Robinhood, there are zero commissions and no minimums. So you can limit your deposits to the amount of money that you want to use for trading, rather than having to meet some arbitrary funding requirement.

Keep in mind that if you want to trade options, the broker is going to want to make sure that you understand what you are getting into. Usually, an interview of some kind is required before you can trade options. They are going to want to make sure that you understand that options are speculation and not investment. That means that you are buying financial assets in the hope that the price of the asset is going to rise over a short time period. This is in contrast to investing, where you are sinking your money into a company for the long haul. So you want to explain to the broker that you want to do speculation more than investment and that you understand what it means and what the risks are. Second, you will want to assert that you are interested in short time horizons, and not long term investing. You will also be asked some basic questions about income level and net worth. However, don’t worry about those they are pretty flexible on those points. Options trade for tens to hundreds of dollars, so you don’t have to be costly to get started.

The primary purpose is simply to satisfy the broker that you completely understand the nature of swing or options trading. It does not preclude you from entering into long term investments as well.

## Tools Available Online

Many brokerages are self-contained, that is they include all the tools you need in order to operate as a swing trader. At a minimum, you should make

sure you have access to the following:

- The ability to chart stocks out to a minimum of five years, preferably longer.
- You should be able to create candlestick charts, not just line charts.
- You should be able to easily switch between different time frames, such as days, weeks, and months.
- There should be access to moving averages, straightforward and exponential moving average tools, with the ability to set the number of periods and include more than one moving average on a chart.
- Other moving averages may be of interest, such as the Hull moving average.
- You will want to be able to utilize Bollinger bands.
- You want access to financial statements along with rundowns of cash flow.

If tools like these are not available, you can visit Yahoo Finance where they can be utilized for free. Some trading platforms have practice or simulated stock markets where you can practice trading real securities, without having to invest any money. This is a perfect way to start training yourself, but of course, without the intense emotions that come when real money is involved, they are of limited value. Once you've setup your account, you're ready to get started.

CHAPTER 18:

# Investment and Margin Accounts

Traders need to open an account with a broker before they can begin trading. As an aspiring trader, you need to learn how to identify brokers and choosing the best account for trading purposes. One of the accounts that you can have is a margin account.

A margin account can be defined as a brokerage account where the broker lends you funds which you will use for trading purposes. The funds are made available to you as a trader so that you can place more trades and be more profitable. The money is considered to be a loan whose collateral includes any cash in your account, as well as other stocks and securities that you have in your account.

## Details of Margin Accounts

Investors will use leverage funds to invest in additional securities such as stocks. With time, those securities are bound to earn a profit. They will appreciate in value over time and earn you a decent income. This income will be much more significant because of leverage. This is the reason why traders prefer margin accounts. It gives them an undue advantage over other traders.

Therefore, obtaining a margin account is equivalent to getting a loan from your broker with the aim of purchasing stocks. Such an account is entirely different from a standard account where you only trade using your own funds. Now, if the profit generated by a trading account is in excess of interest charged on the borrowed funds, then the advantage of the account is evident.

However, if the leverage does not result in profitability and the trader is unable to repay the borrowed funds plus interest, then the loan will become outstanding. This will have negative consequences on your account. For instance, if the securities purchased lose value or basically a trade is not profitable, then the trader will be said to be underwater and will have to find ways of repaying the borrowed funds.

In the unfortunate event that the equity levels of the margin account fall

below what the broker considered maintenance margin, then the trader or client will very likely receive a margin call from the brokerage firm. This usually happens after a couple of days, such as three or less. An investor will be required to provide more funds in their account or possibly liquidate some of their financial assets like stocks in order to recover the lost funds.

As per the law, you are required to sign some documents provided by the broker before opening a margin account. Often times brokerage firms provide forms which you are required to fill out when signing up for an account. However, in most cases, there is a separate form for those opening a margin account. There are also additional requirements such as a first-time deposit of about $2,000. Some brokerage firms demand more than this amount.

It is after the account is open that you are allowed to borrow close to 50% of your deposit. However, you do not necessarily have to borrow the entire 50% available to you. Many traders opt for amounts between 10% and 25%. Traders are allowed to keep the borrowed funds for any period of time just long as they keep the terms of the agreement. Basically, when you make a profit from the sale of stocks and so on, the funds will first be used to clear your debt in incremental amounts until the entire amount is paid.

Caution: As an investor with a margin account, you are more likely to lose money than be profitable. As such, you should only own such an account if you are a seasoned trader with years of verifiable profitability. Traders who open margin accounts are often sophisticated investors who possess a deeper understanding of the markets as well as the risks inherent and requirements of a margin account.

## Maintenance Margin

The term maintenance margin refers to a minimum amount that must be maintained in a margin account at all times. Also, all margin securities in a margin account are all taken as collateral. However, whenever you make profits through trading activity via the account, some of the profit is used to offset the loan. Eventually, the debt amount will be paid in full, and your trading capital will increase significantly.

Margin amounts should be used to invest or trade in short-term opportunities with huge potential returns. Try and avoid long-term investment using margin because the chances of profitability do decrease with each passing day. Also,

it is not all securities that can be purchased using margin funds. Regulations approved by the government regulator have clearly indicated which stocks can be bought and which ones are out of bounds.

For instance, penny stocks cannot be purchased using margin funds. Other forbidden stocks include IPOs or initial public offerings and over the counter BB securities. The reason is that all these securities are exposed to high everyday risks. Brokers sometimes add their own stocks to the list. They can decide which stocks you may not trade or invest in using margin funds. Therefore, always check and confirm which securities qualify before trading. Also, the minimum balance required of $2,000 must be maintained at all costs.

## Additional Financial Products

You are allowed to purchase or invest and trade in other products apart from stocks. These include futures, currencies, options, and so on. When it comes to these other securities, there may be additional requirements on your account balance. Some brokers may want additional deposits if they are concerned about certain risky investments like futures, for instance. Therefore, always check with your broker before buying.

## Investment Accounts

The main aim of an investment account is to generate profits and gradually build wealth over time. This is often achieved through the purchase of stocks and other financial assets over a period of time. Every investor looks to generate wealth for the long term. Investors often have different reasons for generating funds. Some wish to start businesses others want to invest in real estate, and so on. One of the best ways of saving and generating funds in the long term is to reinvest interest and also compound the investments. Investors also diversify their portfolios into plenty of other products including stocks, bonds, options, mutual funds, indexes, and so on.

Investment accounts hold assets and funds for lengthy periods of time. It can take years and sometimes decades before profits are accessed. Investors take advantage of opportunities, including stock splits, dividends, and interests that accrue over time. Of course, markets do fluctuate from time to time. However, investment accounts are able to override these challenges to grow exponentially over time. Moreover, the compounding of investments ensures

that such challenges are overcome. Examples of investment accounts include IRA accounts and 401(K) accounts.

## Trading Accounts

These accounts include a lot of small but regular and frequent transactions. The main aim of these accounts is to generate returns that are higher than the long-term or buy-and-hold accounts.

Investors can be happy receiving 10% to 15% return annually, but traders prefer about 10% return each month. Profits on trading accounts usually accrue from buying small amounts at low prices and then selling the same at higher prices. These trades are often carried out in the shortest periods of time.

Trading styles basically refer to the holding time or amount of time between the purchase and sale of securities. Trade accounts, therefore, include day traders, swing traders, position traders, and scalp traders. Scalp traders hold positions in the markets for only a couple of seconds or minutes. There are certain factors that determine the choice of trading style. These include personality, trading experience, and levels of risk tolerance.

## Buy Long or Sell Short

As a trader, you need to learn more about long and short buying and selling. Trades usually commence via purchase first or selling first. To define the terms appropriately, we need to learn about the meaning and implication of each.

**Long position:** When you assume a long position on a stock, the implication here is that you own the security and it belongs to you. There is no debt on it. Therefore, when a trader buys an asset, he has taken a long position on the asset. In this instance, he hopes that the asset price will appreciate so that he can sell it at a higher price.

**Short position:** We also have a short position where a trader actually sells stocks that he or she does not own. These are stocks or financial instruments that belong to another. Selling short simply means selling in the hope of making money from the sale in order to repay the owner and make a profit in the process.

Short sales occur when a trader is trading the markets, sees an opportunity

but lacks the funds or means to execute the trade. Many experienced traders come across opportunities they believe are profitable. In such instances, they get into an agreement with their broker to access stocks they do not own.

Day traders are often associated with short sales. They often sell stocks then purchase them hoping to benefit from the price difference. They sell stocks that they do not own at a high price and then buy back the same stocks when the price falls. While this can be profitable, it is a risky venture that should only be practiced by seasoned traders.

Short sales by traders are often settled by delivery of the “borrowed” security back to the real owner. Most stocks that are sold short often belong to investors but are held by brokers. As a trader, if you wish to short sell, then you first need to identify an opportunity in the market. You will then need to access the stock so that you can sell it without owning it. This is, of course, after your market analysis shows some profit potential.

Others who also engage in short selling are market makers. Market makers are also known as liquidity providers. They do this in order to mitigate the risk of a long position on the same stock or in response to unexpected demand. Market makers hope to benefit financially from a bid-offer spread.

Traders who engage in short selling can borrow stocks from brokerage firms. Brokerage firms often have an inventory of stocks lying around. Some of these belong to the brokerage while others belong to other long-term investors. It is important to note that even as you gain access to stocks that you do now own, there are specific rules and conditions attached. These include fees and other charges as well as rules. For instance, you can expect to be charged a specific fee for the privilege. You will also be required to pay any dividend due to the stock’s owner while the stocks are under your control.

**CHAPTER 19:**

# Learning the Swing Trading Strategy

Online merchants are always vigilant for approaches to restrain speculator misfortunes. A standout amongst the most widely recognized drawback insurance components is a leave technique known as a stop-misfortune request, where if an offer value plunges to a specific set level, the position will be consequently sold at the present market cost, to stem further misfortunes.

Be that as it may, merchants may improve the viability of a stop-misfortune by matching it with a trailing stop, which is an exchange request where the stop-misfortune cost isn't fixed at a solitary, total dollar sum, yet is somewhat set at a specific rate or dollar sum beneath the market cost. At the point when the cost builds, it hauls the trailing stop alongside it. At that point, when the value at long last quits rising, the new stop-misfortune value stays at the level it was hauled to along these lines, naturally securing a financial specialist's drawback, while securing benefits as the value achieves new highs.

Trailing stops might be utilized with stock, choices, and prospects trades that help customary stop-misfortune orders. With a stop-loss request, if an offer value plunges to a specific set level, the position will be consequently sold at the present market cost, to stem further misfortunes.

Dealers may improve the adequacy of a stop-misfortune by matching it with a trailing stop, an exchange request where the stop-misfortune cost isn't fixed at a solitary, supreme dollar sum, however, is fairly set at a specific rate or a dollar sum beneath the market cost.

## Trailing-Stop/Stop-Loss Combo for Winning Trades

During low value plunges, it is pivotal to oppose the motivation to reset your trailing stop, or else your successful stop-misfortune may finish up lower than anticipated. By a similar token, getting control over a trailing stop-misfortune is prudent when you see energy cresting in the graphs, mainly when the stock is hitting another high.

Trailing stops is only one approach to control the hazard compensate

proportion when exchanging. Canny dealers keep up the choice of shutting a situation whenever by presenting a sell request at market.

## The Best of Both Worlds

When joining conventional stop-misfortunes with trailing stops, it's imperative to compute your most extreme hazard resilience. For instance, you could set a stop-misfortune at 5% underneath the present stock cost and the trailing stop at 6% beneath the present stock cost. As offer cost expands, the trailing stop will outperform the fixed stop-misfortune, rendering it excess or out of date. Any further cost increments will mean further limiting potential misfortunes with each upward value tick. The additional insurance is that the trailing stop will just go up, where during business sector hours, the trailing highlight will reliably recalculate the stop's trigger point.

## Utilizing the Trailing Stop/Stop-Loss Combo on Active Trades

Trailing stops are progressively hard to utilize with dynamic exchanges, because of value variances and the instability of specific stocks, particularly during the first hour of the exchanging day. Of course, such quick moving stocks ordinarily pull in brokers, due to their capability to create generous measures of cash in a brief timeframe.

For this technique to deal with dynamic exchanges, you should set a trailing stop esteem that will oblige frequent value changes for the specific stock and catch just the substantial pullback in cost. This can be accomplished by altogether concentrating a stock for a few days before effectively exchanging it.

You should probably time your exchange by taking a gander at a simple clock and taking note of the edge of the long arm when it is pointing between 12 p.m. also, 4 p.m., which you'll need to use as your guide. Presently, when your preferred moving average is holding enduring at this point, remain with your underlying trailing stop misfortune. As the moving normal alters course, dipping under 4 p.m., it's an ideal opportunity to fix your trailing stop spread.

The trailing stop/stop-misfortune combo takes out the enthusiastic segment from exchanging, letting you soundly settle on estimated choices dependent on factual data.

## Broker Risk

Brokers face certain dangers in utilizing stop-misfortunes. First of all, advertise creators are definitely mindful of any stop-misfortunes you place with your intermediary and can drive a whipsaw in the cost, accordingly knocking you out of your position, at that point running the value ideal back up once more. Also, on account of a trailing stop, there weaving machines plausibility of setting it excessively tight during the beginning periods of the stock collecting its help. For this situation, the outcome will be, where the stop will be activated by an impermanent value pullback, leaving dealers to fuss over apparent lost. This can be an extreme mental pill to swallow.

In spite of the fact that there are critical dangers required with utilizing trailing quits, joining them with customary stop-misfortunes can go far toward limiting misfortunes and securing benefits.

## Short Covering and Short Squeeze

Short covering and short squeeze are various terms to depict a circumstance including short positions. A short squeeze is a circumstance where a security's cost increments fundamentally, making short venders close their short positions. On the other hand, short covering includes repurchasing a security to finish off an open short position.

A short squeeze includes a surge of purchasing action among short merchants because of an expansion in the cost of a security. The expansion in the security value makes short venders repurchase it to finish off their short positions and their misfortunes. This market movement causes a further increment in the security's value, which powers all the more short venders to cover their short positions. By and large, protections with a tremendous short intrigue experience a slight crush.

For instance, the short interest for an organization is about a half. Assume numerous dealers and speculators are short from $30 because of awful profit, and the stock is as of now exchanging at $15. Be that as it may, throughout the next quarter, the organization reports excellent income and copies in an incentive to $60. Since numerous merchants are short, they would need to cover their short positions to constrain their misfortunes; this makes purchasing weight on the stock and makes the cost increment to $70.

In opposition to a short squeeze, short covering includes acquiring a security to cover an open short position. To finish off a short position, brokers and

speculators buy a similar measure of offers in the security they undercut. For instance, a broker undercuts 200 portions of a company at $20 per offer, and after that the company’s value diminishes to $11 per share. The broker covers his short position by repurchasing 200 portions of the company’s stock at $9. The merchant benefits significantly.

## The Trend Line

As a broker, you have presumably heard the familiar aphorism that it is ideal to exchange with the pattern. The pattern, say every one of the intellectuals, is your companion. This is wise counsel as long as you most likely are aware and can acknowledge that the pattern can end. And after that the pattern isn't your companion.

So how might we decide the bearing of the pattern? We have faith in the KISS rule, which says, keep it basic, inept" Here is a strategy for deciding the pattern, and a straightforward technique for envisioning the finish of the pattern.

Before we begin, we need to make reference to the significance of time spans in deciding the pattern. As a rule, when we are examining long haul speculations, the long haul time period overwhelms the shorter time periods. Be that as it may, for intraday purposes, the shorter time period could be of more noteworthy worth. Exchanges can be isolated into three classes of exchanging styles or portions: the intra-day, the swing, and the position exchange.

Huge business dealers, for example, those organizations setting up creation in an outside nation, may be keen on the destiny of the cash over an extensive stretch of, for example, months or years. Yet, for theorists, a week after week outline can be acknowledged as the long haul.

## Midpoints Moving in Pairs

With a week by week outline as the underlying reference, we would then be able to approach deciding the long-haul pattern for a theoretical merchant. To do this, we will turn to two valuable devices that will enable us to decide the pattern. These two apparatuses are the necessary moving standard and the exponential moving average.

## Catch a Wave

By setting up a momentary exponential moving average and a more drawn out term straightforward moving average, on a week after week and a day by day graph, it is conceivable to check the bearing of the pattern. Realizing the pattern helps in taking positions however, remember that the business sectors move in waves. These waves are called drive waves when toward the pattern and remedial waves when as opposed to the pattern.

By including the waves or rotates in each wave, one can endeavor to foresee whether an exchanging opportunity will be against the pattern or with the pattern. As indicated by Elliot wave hypothesis, a motivation wave, for the most part, comprises of five swings and a remedial wave, for the most part, comprises of 3 swings. A full wave move would comprise of five swings with two of the swings being counter-pattern.

**CHAPTER 20:**

# Candlestick Analysis and Chart Patterns for Swing Trading

Swing trading a moderately prevalent trading system. The considerable improvement in graphing administrations on the Internet currently gives a technique to people to exploit the brisk vacillations in stock costs. Swing trading gives speculators a colossal chance to make benefits.

As the market assessments advance, long haul contributing turns out to be, to a lesser degree a popular type of contributing. Swing trading has numerous points of interest over long haul contributing, particularly when executing with a planning procedure, for example, candle trading. Swing Traders will regularly hold a specific stock for anyplace from a couple of days to half a month, yet trade based on the stock's intra-week or intra-month value changes.

Candle investigation has "the presence of mind" incorporated with its sign. Understanding the financial specialist assumption readies the candle speculator to augment benefits in momentary swing trading. To get into a trade at the ideal point, envisioning when a pattern is going to switch, is critical. Seeing how the healthy financial specialist thinks and responds allows quick benefits to be made by swing trading.

When most patterns turn around, they do as such with life. The underlying day or two of a pattern inversion can deliver significant benefits. Swing trading is focused after exploiting that underlying move. If the trader has the instruments to discover and misuse these moves, swing trading turns into a productive and agreeable type of extricating benefits from the market. Our conflict is that the candle sign are the devices required.

Swing trading requires the arrangement and convergence of occasions to augment benefits. Long haul contributing does not require the stringent examination of benefit parameters. How regularly have you heard someone defend about misfortune in their position, "Gracious well, I'm in it as long as possible." This announcement is frequently articulated as opposed to taking a dynamic position towards one's venture objectives.

Swing trading speaks to the precise inverse. A financial specialist attempting to amplify benefits from a two to multi-day holding period must have investigated all components. When swing trading, the foundation of trade must correct in its motivation, making a benefit NOW in that trade.

The intrinsic attributes incorporated with candle sign produce the parameters that make swing trading useful. The acknowledgment of example inversion in a pattern can be outwardly delineated in the sign. For the forceful swing trader, knowing how the sign is framed can deliver trades that pinpoint the fundamental point where to enter a trade. Also, similar signs that get the candle swing trader into a trade will alarm the trader when the time has come to get out.

As found in the accompanying outline, see the Doji signals at each turn. Knowing the straightforward guidelines about what to do once watching a Doji has the candle swing trader all through trades at the ideal focuses.

Learning the techniques to assess the sign makes swing trading a simple program to concentrate benefits out of the market reliably. Candle sign gives two crucial aspects. To start with, the sign ventures find the high potential productive swing trades. The pursuits can be developed to discover the sign that happens in the best positions during pattern development. Finding a candle purchase signal when stochastic is oversold or scanning for a hole up after a Doji are a few models on the most proficient method to use the pursuit capacities completely. The subsequent aspect is the pinpointing when to get into and out of a trade as clarified before.

Candle diagrams are a specialized apparatus that pack information for various time spans into single value bars. This makes them more helpful than customary open-high, low-close bars (OHLC) or primary lines that come to an obvious conclusion of shutting costs. Candles assemble designs that anticipate value heading once finished.

Steve Nison brought candle examples toward the Western world in his famous 1991 book, "Japanese Candlestick Charting Techniques." Many traders would now be able to identify many of these arrangements, which have beautiful names like bearish foreboding shadow spread, evening star and three dark crows. Furthermore, single bar examples, including the Doji and sled have been fused into many long-and short-side trading systems.

## Candle Pattern Reliability

Not all candle examples work similarly well. Their immense notoriety has brought down dependability since they've been deconstructed by speculative stock investments and their calculations. These well-subsidized players depend on lightning-speed execution to trade against retail speculators and customary reserve supervisors who execute specialized investigation procedures found in prevalent writings. At the end of the day, support investment managers use programming to trap members searching for high-chances bullish or bearish results. In any case, solid examples keep on showing up, taking into account short and long-haul benefit openings.

Here are five candle designs that perform incredibly well as forerunners of value-bearing and energy. Every work inside the setting of encompassing value bars in anticipating higher or lower costs. They are additionally time delicate in two different ways. In the first place, they just work inside the restrictions of the graph being checked on, regardless of whether intraday, every day and week after week or month to month. Second, their intensity diminishes quickly three to five bars after the example has finished.

## Top 5 Candlestick Patterns

This investigation depends on crafted by Thomas Bulkowski, who manufactured execution rankings for candle designs in his 2008 book, “Reference book of Candlestick Charts.” He offers insights for two sorts of expected example results: reversal and continuation. Candle inversion examples anticipate an adjustment in value bearing, while continuation examples foresee an augmentation in the present value heading.

In the accompanying models, the empty white candle signifies an end print higher than the opening print, while the dark candle means an end print lower than the opening print.

### Three Line Strike

The bullish three-line strike inversion example cuts out three dark candles inside a downtrend. Each bar posts a lower low and closes close to the intrabar low. The fourth bar opens even lower yet inverts in a wide-run outside bar that closes over the high of the leading light in the arrangement. The opening print additionally denotes the low of the fourth bar. As indicated by Bulkowski, this inversion predicts more expensive rates with an 84%

precision rate.

**Two Black Gapping**

The bearish two dark gapping continuation example shows up after a remarkable top in an upturn, with a hole down that yields two dark bars posting lower lows. This example predicts that the decrease will keep on night lower lows, maybe setting off a more extensive scale downtrend. As indicated by Bulkowski, this example predicts lower costs with a 68% exactness rate.

**Three Black Crows**

The bearish three dark crow's inversion example begins at or close to the high of an upturn, with three dark bars posting lower lows that nearby, close intrabar lows. This example predicts that the decay will keep on night lower lows, maybe setting off a more extensive scale downtrend. The most bearish rendition begins at another high (point on the graph) since it traps purchasers entering force plays. As indicated by Bulkowski, this example predicts lower costs with a 78% exactness rate.

**Night Star**

The bearish night star inversion example begins with a tall white bar that conveys an upswing to another high. The market holes higher on the following bar, yet new purchasers neglect to show up, yielding a restricted range candle. A hole down on the third bar finishes the example, which predicts that the decrease will keep on night lower lows, maybe setting off a more extensive scale downtrend. As indicated by Bulkowski, this example predicts lower costs with a 72% precision rate.

**Relinquished**

The bullish relinquished child inversion example shows up at the low of a downtrend after a progression of dark candles prints lower lows. The market holes lower on the following bar, however, crisp vendors neglect to show up, yielding a thin range Doji candle with opening and shutting prints at a similar cost. A bullish hole on the third bar finishes the example, which predicts that the recuperation will keep on night higher highs, maybe setting off a more extensive scale upturn. As indicated by Bulkowski, this example predicts more expensive rates with a 70% exactness rate.

CHAPTER 21:

# Difference between Swing Trading and Day Trading

As you are looking through these two options, you may notice that swing trading seems very similar to working with day trading. While there are some similarities between these two, and there are many times that they will use some of the same strategies in the same way, they are two very different forms of investing. In many cases, investors tend to favor working with swing trading because it gives them more time to make decisions and can help them to earn more profit on each trade. Some of the advantages of working with swing trading compared to day trading include: These are just a few of the benefits that you can get when you decide to get started with swing trading rather than relying on day trading. Let's take a closer look at each of these reasons to get a better understanding of why swing trading may be the strategy that you need.

## Temperament

If you are someone who doesn't really like to make snap decisions, then day trading is often not the best idea, and swing trading can work better for you. One advantage of this kind of trading is that you have more time luxury than others. You can take some more time to consider the trades that you want to take before you make a trade. You can use a variety of tools and analyze the trade a bit before using the strategy. You also have more time to determine your rewards and your risks, which can be very important when you want to be a successful trader.

Swing trading is a much better option for those who see themselves as methodical thinkers, the ones who like to plan out a trade in advance, the ones who like to determine the best entry points, analyze the upside and the downside, and the ones who want to settle on an exit strategy. Moreover, they want to have plenty of time to do all of this before they push to either purchase or sell the security they want to trade.

To keep it simple, if you are someone who likes to have some time to figure out if a specific approach is the best for you, then swing trading is the best

option. In some cases, you may find that you are well adapted to doing both swing trading and day trading. But, for those who want to have more time to think through their decisions and those who want to be able to enjoy the trading a bit more, then swing trading is the better option.

**Availability**

The next thing that you need to look at is your availability. All of the exchanges in North America are going to open up at 9:30 am Eastern Time and then will go until 4 pm Eastern Time as well. The chances that you get to trade outside of these hours are known as pre-market and after-market, but trading during these periods is usually not recommended because there are less predictability and higher volatility during these times.

The amount of time that you have to trade the market during certain times of the day can depend on a few factors but mostly on where you live or your specific time zone. If you live on the west coast, for example, you would have to trade between 6:30 and 1:00 each day. This may work a bit for you because you could get a few hours of trading in before heading to work.

But, if you live on the east coast and you have to be at work by 9:00 in the morning, you may find that there aren't many hours for you to trade with. In this case, swing trading may be the best option for you. You will have the luxury of trading in the evening or even during your lunch break. You can use this time to check your stocks, view the market action, and then get back to work.

With day trading, you would have to watch the market all day. But, with swing trading, you could just check in on occasion and see how the market is doing when it works for you. Just make sure that you put in the correct entry and exit orders. If you do this, then the price movements of the securities will come to you and fill your orders during the day, even when you are doing other obligations during the day.

**Lifestyle Balance**

Now, we are going to spend some time looking at how swing trading is better for a lifestyle balance. Everyone is different when it comes down to how much time they want to set aside for work, and how much they want to set aside for play. Some like to work all of the time, but most people like to have at least a little time for fun activities in their days. You also have to figure out

how much time you need to devote to your family and other commitments on top of the work that you want to do with trading.

Again, one of the advantages of doing swing trading is that there is a lot of flexibility for the trader to enjoy. You don't have to sit in front of the computer all day, so you get some freedom to come and go. Yes, you do need to sit down each day and check your position, look for some new opportunities to take care of, and pay attention to what the market is doing. But you don't have a requirement for what time to sit and watch the market, and you don't have to stay there all day long.

**Financial Demands**

With swing trading, you won't need to have as much money ready to get started. Ideally, you will start at about $5000 in your account. If you can, it is better to start with more, but it is possible to start with less depending on the trades that you want to do. Just remember that the less capital you put into your trading account to start, the more limited number of choices you will have when it comes to stocks you can trade with.

If you want to open up a margin account, the amount of capital that you need to start can be a little bit less. Government regulations state that these margin accounts need to have a minimum of $2000 in them. The deposit can be done in cash or in other negotiable securities, like bonds or stocks that you hold onto. You will have to talk with your broker about using those first.

When compared to doing day trading, the US requires that you deposit a minimum of $25,000 in the account before you can even take a look at trading. This amount is pretty high, and it is going to be more than what most people are able to do. This alone can be a big advantage when it comes to trading with swing trading.

**Less Idle Time**

Most people have better things to do than just sit around and wait to see something happen. You have other obligations, work, chores, family, and more that you want to spend your time on. But, when you are a day trader, you will have to spend a lot of time sitting, watching, and waiting in between all of your tradable opportunities, and this can be a lot of wasted time, which most people don't want.

When it comes to swing trading, though, you can still monitor your positions

while doing some of your other responsibilities and duties for the day. You don’t have to keep yourself tied to a computer screen, waiting to see an alert from your scanning program, or waiting for a big market event to take place that will help you see that a security is going to move in one direction or another. This can free up a lot of your time compared to what day traders have to deal with to make any profits.

As you can see, there are a lot of benefits that come with swing trading. It is a short-term strategy, so you don’t have to stay in the market for too long, but it still provides you with the benefits that you are looking for when you want to earn a good profit in the process. You still get more time to do the trades, you don’t have to stay connected to a computer all day, and swing trading is usually seen as an easier option compared to other trading strategies.

**CHAPTER 22:**

# Forex Swing Trading

Forex is a turn that isn't raised frequently enough in the investment network. It is the monetary forms market where the world's financial standards are traded nonstop. It is where incredible fortunes are made and lost every day consistently of the day. Just the individuals who realize what they are doing are probably going to make money in this market on a predictable basis.

Various strategies have endeavored in the Forex market. One of those strategies is to utilize something known as Forex swing trading. This Forex swing trading is a propelled strategy of following the trends of the market to attempt to make the most money.

At the point when you are doing Forex swing trading, you are inspecting the innovation trends that are available in the market and attempting to utilize them to your advantage. It is less about which monetary forms you accept will be on the ascent and increasingly about how you think the market itself is going to act. There are various estimates that people take a gander at to perceive how the market responds on an everyday basis. Sometimes there is almost no currency news going on; however, the market despite everything goes up or down.

People who use Forex swing trading attempt to comprehend why these technical moves are made and attempt to utilize them to make money. They need to purchase low and sell high in the extremely transient, merely dependent on speedy responses in the market. Regardless of whether the moves have nothing to do with the genuine value of the currency, the individuals who practice Forex swing trading can profit.

Remember that this strategy isn't for everybody. There are a couple of individuals who may be better supported to simply purchase and hold or to move to a different market out and out. In any case, for the individuals who do accept that they have the opportunity important to place into the sort of research required, at that point, this can demonstrate truly profitable.

## Forex Swing Trading - Swing Trade Your Way to Regular Profit

The rise of online forex trading implies that anybody can swing a trade for momentary profits; it's profitable, but on the other hand, it's anything but difficult to learn, great fun, and that is the thing that trading ought to be.

Forex swing trading on the web provides the ideal market for the methodology of swing trading.

So for what reasons are currency markets the ideal for swing trading?

Swing trading here methods despite everything seeing brief timeframe outlines; however, the information is reliable enough for you to get the odds in your favor.

The following conditions make Forex swing trading conceivably such a lucrative way of trading

- Liquidity
- Volatility
- Exchange costs
- 3 - 5 pip spreads transient significance trading is feasible for any trader
- Swing trades come regularly
- Psychology is anything but difficult to learn

Numerous traders need persistence and need to have speedy activity well. That is actually what you get with forex swing trading. Forex swing trading offers them many trades regularly, and you needn't bother with the tolerance of a long term trend follower.

Swing traders will, in general, either hurry to profit rapidly or misfortune, keeping the trader interested, motivated, trained, and centered.

This is an ideal way of trading for somebody who cherishes trading. Currency swing trading success can be accomplished through a plan of forex trading, which is most ordinarily known as forex swing trading. The forex swing trading is generally easy and easy to learn and apply. It is exceptionally prompted for the new traders and the tenderfoots who need to attempt their

fortune through this trade and business.

Swing trading is a type of forex trade wherein the trader is always in an attempt to take advantage of the swings or the instabilities of price and that likewise of a currency in a particular timeframe. Presently you will ask what “swing” is. The traders realize that the price evaluation never moves legitimately upwards or downwards. Indeed, it sways in a wave-like structure. These motions in the price evaluation, regardless of going towards an upward direction or downward direction, are known as Swings in trading.

The investor may hold on the currency for a few days, which can even stretch out as long as scarcely any weeks which relies upon the circumstances of the trading market before the trader sells off or exchange the stocks with some other currency to make one's benefits. The primary concern identified with the forex swing trade is that it ought to be finished with the help of an ideal strategy that can identify the point and the technique for attaining that point and target.

**Great strategy involves**

The great strategy makes the hour of the passage point exceptionally clear and characterized in the trading market. Indeed, even the leave point and its time is likewise portrayed legitimately.

Additionally, the strategy would likewise recommend the different estimates which would moreover help you in diminishing the hazard opportunities to the insignificant level that is conceivable. This is further liable for helping to lessen the misfortune and to have better controls over the adversity giving conditions.

Presently, to choose about the timings of the passage and exit and to control the losses, the trader would, for the most part, take the guide of signs, which help show the assortment of trends of the forex market. Indeed, even they anticipate the future instabilities of the currency values.

The trader needs to comprehend the signs to achieve success in the forex swing trade. Numerous traders watch the political, social, and financial circumstances of the principal nations with focus. In case the recently referenced conditions change even in a slight manner, at that point likewise the value of the currency of the nation gets influenced in a lot. Trading strategies must have severe rules to follow. Signs characterize the rules of the

passage and exit of the trader into and out of the trade.

Other than following the arrangement of rules and guidelines, the trader should work out a full oversight on his/her notions. It has been demonstrated that few traders face an incredible misfortune since they become apprehensive and alarm in certain conditions where they discover the exit as the best solution. The trader needs great money management techniques, connection to the rules, impeccable mindset, and perception of the signs so as to accomplish success in forex swing trading.

**CHAPTER 23:**

# How to Manage Your Funds When Swing Trading

Money management is the practice of supervising an individual's or a group's capital usage. A good manager understands that the first thing to do in money management is to have a budget. A budget is a spending plan. It indicates how much money is coming in, how much is going out, and how it is going out. As a good manager, why should you budget for your money?

- **To Keep You from Overspending**

Most people who do not plan on how to utilize their money always end up overspending. A budget helps you to spend what you have and to avoid getting yourself in debt to cover up for the overspent money.

- **To Help You Achieve Your Goals**

A budget helps you to plan your spending on a priority basis. You direct your money towards the most important things. A budget gives you a plan to stick on and enables you to achieve your goals. It also helps to safeguard your savings.

- **Enables You to Save Money**

Most of the people who do not budget for their money save less or don't save at all. With a budget, you are obliged to put a certain amount of money into savings each month. A budget also keeps you from dipping into the money spent each month. It is because you have already planned for your expenses in advance.

- **Keeps You from Worrying**

Budgets come with restrictions, but the good thing is that you have the right to decide how much to put on each category. It doesn't matter which category you put as a priority, but what is of essence is to stick to your budget.

- **A Budget Gives You Flexibility**

A budget should be flexible enough to enable you to move money according to your needs in every month. The only amount that you should not touch should be your savings. Other than that, you can adjust the other categories to suit your monthly needs.

- **A Budget Gives You Control of Your Money**

Sometimes we find ourselves in situations where we cannot explain how we utilized our money. A budget gives you the power to spend and track your spending to know when to stop. It gives you the power to transform your financial future. You make decisions at the beginning of every month on how to manage your money, and you keep monitoring them every day to avoid overspending. It keeps you in control of your money.

Making a budget is as easy as ABC, but the greatest challenge comes in sticking to it. The best way to stick to your budget is to track your expenses. By doing so, you will know when you are within the budget, when you are overspending and when you need to make a change. How can you effectively track your expenses?

**a) Record every expense throughout the day**

Take time to record each expense regardless of whether you think it is negligible. Also, keep checking the total to have an idea of the amount left in each category for spending. It will help you to keep within your budget and t change your spending habits.

**b) Stick to your expense limits**

You should train yourself to stop when you run out of money in any category. It will allow you to study your budget and adjust it to suit your spending. Even as you transfer money in different categories, you should keep in mind that paying your debt and savings should top the list.

**c) What should you do with the money you did not spend?**

Rolling it forward to the following month is the easiest option, but there are also other viable options like saving the amount. To make any of the choices above, you need to understand all the monthly expenses. For instance, it is wise to roll the amount to the following month in cases where bills keep

varying every month like water bills. It will come in hand in months when the bill will be more than budgeted for. In case of unspent amounts in categories like foodstuff, it is advisable to save the amount and work towards achieving other goals or build your emergency fund.

**d) Use budgeting software's**

Budgeting software is easy to use and helps you to track your expenses easily. There are many varieties, and it is important to choose the option that will suit your needs and one that you can sync with your bank.

**e) Use cash only**

Some expenses that we incur every month like groceries or eating out, we can opt to pay them with cash. You can have an envelope for each category where you put your budgeted amount. Every time you go to purchase such items, you carry your envelope and keep the receipts after every purchase. The receipts help you to track your expenses all through the month and have a final figure at month-end to know how much you spent.

## Other Ways of Managing Your Money

A budget makes your life easier, and we can attest to it with the information that we have shared above. It takes charge of sorting all your financial obligations. We have looked at how a budget helps you to manage your money and track your expenses. However, it is not the only way to utilize to manage your money better. Making a budget and sticking to it is the first step to money management but also other ways to help you in money management.

**1. Set a limit for unbudgeted spending**

After setting aside your savings and your monthly expenses and you find some amount of money left, how should you utilize it? This money left over can be used for fun, but up to a fixed amount, after all, all work and no play makes Jack a dull boy. In most cases, it is not a huge amount of money, but you should make sure that spending it will not affect your budget.

**2. Be aware of all spending**

Some spending might look harmless and negligible, but to a good management system, every coin should count. Save your purchase receipts

and record all the spending on a diary. Observe your spending and take note of the paces that you may be overspending unknowingly. It will open up the 'negligible expenses' that you have not been checking.

### 3. Be cautious when committing to recurring monthly bills

Banks and other financial lenders will always have enticing offers for their loans, but you should know that you are not obliged to make any commitment even though you are qualified. Remember, the banks only have information on your income and credit report and none on the other obligations. You should always weigh your options to know whether you can afford an extra monthly payment.

### 4. Pay the best prices

There is nothing wrong with window shopping before making purchases. Different stores have different prices for the same commodity. Always compare the prices and ensure you get the lowest prices for your commodities. Take advantage of discounts and offers whenever possible.

### 5. Plan for big purchases

You should train yourself to delay gratification to manage your money properly. You should do this by setting aside big purchases to assess whether they are necessary or not. You also get a chance to compare prices. Saving for such big commodities gives you discipline and save you paying interest on credit used to purchase them.

### 6. Limit purchases made with credit cards

Credit cards are only good and allowable to disciplined people. Credit cards are the stepping stones to debt for bad spenders. You should train yourself to resist the urge to use them just because they are available. They make you not consider your financial position, and you purchase that would otherwise not afford.

### 7. Set up a savings account

Saving every month gives you good financial habits. Setting aside the amount for yourself can be tricky as you might not take it as a priority and sometimes not remember it. Setting up a savings account and having it checked off from

your checking account is a good move always to save monthly.

The more you practice the above habits daily, the more you become better at managing your money.

**CHAPTER 24:**

# Stock Listing Conditions

Stock listing refers to the legal act of publicly listing trading on the exchange after the stocks have been approved by the stock exchange. The stock is listed as a “bridge” connecting stock issuance and stock trading.

The conditions for the termination of listing of shares are as follows.

1. The listed company's total share capital and shareholding distribution have changed, and no longer have listing conditions. The listing conditions cannot be met within the time limit set by the stock exchange.
2. The listed company does not disclose its financial accounting report in accordance with the regulations, or has false records of financial accounting reports and has refused to correct them.
3. The listed company has suffered consecutive losses for three years and failed to resume profitability in the following year.
4. The listed company is dissolved or declared bankrupt.

Ways of Issuing Shares

Before the stock is issued, the listed company signs an agency issuance contract with the agent issuing securities firm of the stock, determines the way the stock is issued, and clarifies the responsibilities of the parties. The method of issuing stock agents is different according to the risks assumed by the issuance. It is generally divided into two types: underwriting and issuance.

Through the underwriting method of stock listing, although listed companies can raise a large amount of funds in the short term, they can cope with the urgent need for funds. However, securities that are generally underwritten, securities underwriters are only purchased at the primary issue price of the stock or at a lower price, which inevitably causes the listed company to lose some of its due income.

In recent years the stock market has become one of the sole advantages for

people who are trying to achieve financial management by investing in different sectors. For wannabe traders and investors, it is very important to acquire basic knowledge on how the stocks work. Let us dive into the trading world.

## What Is a Stock Index?

It is compiled using the index method in statistics and is an indicator reflecting the overall price of the stock market or the movement and trend of certain stock prices.

It is also known as the stock price index dynamically reflects the total price level of a stock market in a certain period. Specifically, the total price level of a certain base period is considered as 100. A relative number obtained by comparing the total price levels of stocks in each period, that is, the stock price index of each period can be known by this process. The stock price index is generally expressed as a percentage and is famously referred as “dot.”

In essence, the stock index is the stock price average, but when calculating the stock index, the stock index and the stock price average are usually calculated separately. As a fact that the average stock price is expressed in arithmetic mean, it reflects the general level of price movements of multiple stocks.

The stock index reflects the stock price changes in different periods. This is the reason for which in a long period of time, the stock index can more accurately reflect the stock price changes and trends than the stock price average. The calculation of the stock price index has two methods: arithmetic average method and weighted average method.

However, in practice listed companies often increase, split, and pay dividends so that stock prices have the effect of ex-rights and ex-dividends which makes them losing continuity and makes them impossible to be directly compared. Therefore, in the calculation of the stock price index, we must also take into account the changes in these factors, and correct the index in time to avoid distortion of the stock price index.

## Stock Exchange Market

There are many stock market exchanges all around the world. One needs to understand in depth to invest in stock markets. Sufficient and moderate

knowledge is an essential prerequisite before starting any investment because many factors are responsible for the fluctuation of stock prices.

### 1. New York Stock Market

The New York Stock Exchange is an important part of the New York capital market. In the United States, more than 10 stock exchanges are registered under the Securities Exchange Act and are listed as national exchanges. Among them, the New York Stock Exchange, NASDAQ and the American Stock Exchange are the largest; they are located in New York.

The New York Stock Exchange (NYSE) is located on Broadway Street and is arguably the nerve center of the world economy. The New York Stock Exchange is the first exchange of listed companies with the highest market capitalization, the number of IPOs and the market value, and the second trading volume. At the end of April 2005, NYSE acquired the all-electronic stock exchange (Archipelago) and became a profitable institution.

It is reported that there are about 2,800 companies listed on the New York stock market, with a global market capitalization of $15 trillion. In the course of more than two hundred years of development New York Stock Exchange has expanded its name and prestige hundreds of times.

The Institute has played a pivotal role in the development of the US economy, the smooth progress of socialized production, and the construction of a modern market economic system.

### 2. Tokyo Stock Market

The Tokyo Stock Exchange is one of Japan's stock exchanges, referred to as "Dongzhen," headquartered in Tokyo. Although the history of the development of the Tokyo Stock Exchange is not long when compared in NYSE, it is one of the largest securities trading centers in the world and the second-largest securities market in the world after the New York Stock Exchange.

The Tokyo Stock Exchange, along with the Osaka Stock Exchange and the Nagoya Stock Exchange, are among the top three stock exchanges in Japan, and their market size ranks among the top three in the world and is also Japan's most important economic center. At present, there are 1,777 listed companies in the Tokyo Stock Exchange, including 110 foreign companies,

with a total market capitalization of nearly $4.5 trillion.

### 3. London Stock Market (LSE)

LSE is one of the largest stock exchanges. As the world's most international financial center, London is not only the global leader in European bond and foreign exchange trading.

First, it also accepts more than two-thirds of the international equity underwriting business.

As the world's third-largest securities trading center, the London Stock Exchange is the world's oldest stock exchange. The London Stock Exchange plays a central role in operating the world's strongest stock market, with foreign stocks trading more than any other stock exchange.

### 4. Chinese Stock Market

The most important of these is the Shanghai Stock Exchange, which was established on November 26, 1990 and opened on December 19 of the same year.

**CHAPTER 25:**

# Price Action Trading

In the world of swing trading, there is a specific trading method known as price action trading that can help people trade on profitable stocks and earn massive profits. Price action trading is a distinctive form of swing trading, and it can provide the trader with massive amounts of profit if it is used properly. Furthermore, price action trading does nurture many excellent skills that can support you in swing trading more effectively overall, so it is worthwhile to learn about how price action trading works and who uses this trading method.

Price action trading is a method where traders rely heavily on the information they receive through technical analysis regarding the way a price of certain security has behaved in the recent and distant past. This strategy completely ignores fundamental analysis, which is a form of analysis that gathers the information that is specific to an organizations' financial landscape, and instead focuses solely on technical analysis as a means for qualifying trading positions.

The way that technical analysis is completed for price action trading is relatively different from how it is done for other trade methods as well. This strategy relies less on technical indicators and more on the actual movement of the stocks themselves so that traders can develop a theory on what the prices are doing. In many ways, the decisions that price action traders make are based more on their instinctive feelings about where the market is going and less on their fact-based evidence that they accumulate from any form of research or analysis.

Although price analysis trading might sound flaky due to the fact that it is more based on theories than factual information, there is still a strong basis for how these theories are identified and validated. Generally, a trader will take a look at a stock market chart that is free of any technical indicators and will track how the price of a certain stock has behaved until that point. They will pay attention to different behaviors that indicate the trading psychology of other traders, which will then help them understand what is likely going to

happen on the market.

That's right; the tool that price action traders rely on is their instinct around the general psychology associated with all of the traders that are actively trading on the market. They use certain psychology markers to understand whether traders are presently trading out of fear or greed, and when that psychology is likely to switch into the opposite trading pattern. By following these patterns, they can assume what traders are going to do, which will, therefore, directly affect what will happen in the market.

Once a price action trader has accumulated their information surrounding the likely psychology of the traders on the current market, they begin to locate the best positions for them to get into and trade on. They take their analysis into account and guess how long that trade will likely go on for and how long they are likely to profit so that they can determine whether or not the trade is worth the investment. When they feel absolutely confident in a trade, they will go ahead and enter the position.

## What Tools Are Used for Price Action Trading?

Price action traders are not bound by any specific rules like other traders that rely on fundamental or technical analysis information to help them identify whether or not a trade position is worth the investment. For that reason, not everyone is going to arrive at the same price conclusion because each trader will have their own unique understanding of how trader psychology works and how it might impact their opinions. Due to the nature of how these trades work, they are largely subjective in nature, whereas other trade strategies are objective in nature.

Despite the trades being more subjective and based on someone's instinct and opinion rather than analysis, there are still tools that are used to determine whether a trade is going to be worth the investment or not. Traders use tools like charts, trend lines, high and low swings, price bands, and technical levels to determine the strength of a stock and where the psychology of the traders trading that stock rests. This way, they are able to validate their theories and determine whether they are likely to be true or not.

By observing the aforementioned charts, traders seek to understand how other traders are trading, what emotions they are likely feeling around trading, and how those emotions are likely going to impact their trades. While every

trader’s goal is to trade as objectively as possible, at the end of the day, emotions always come into play and those emotions can be seen in the overall fluctuations of the market.

When traders are greedy, the market goes bullish, and when they are fearful, the market goes bearish. How bullish or bearish the market is and how bullish or bearish it has been in the past indicates how committed traders are to their feelings of greed or fear, which helps a price action trader identify whether or not they are likely to change their mind in the near future.

## Who Uses the Price Action Trading Method?

Price action trading is actually done by a wide range of people, from professionally employed traders to retail traders and even speculators. The people who are most likely to experience success with price action trading are those who have a keen eye for understanding human psychology and how our feelings can affect our decisions. Also, these traders take the time to understand psychology and emotions relating specifically to the market so that they can have a stronger understanding of what is likely going on with other traders.

If you are interested in price action trading, or even if you are not, learning about the psychology of traders is important. Doing so can help you better understand what is going on in the market and can support you with validating the quality of your trade deals. Even those who plan on using technical analysis or fundamental analysis to validate their positions can still include psychological analysis to develop a stronger sense of confidence in their trades. This way, they are more likely to capitalize and less likely to incur such massive losses with their trade deals.

**CHAPTER 26:**

# Finding the Right Stocks to Trade

You can have the best strategy in the world but if you pick the wrong stock, then you are wasting your time. Before you go any further, you will need to take some time here to study your stocks. The following factors below will help you pick out the perfect stocks to trade.

## The Revenue of the Company

The growth of a stock is going to begin when the company starts to make money. If the company isn't making any money, then they may be brand new and it's too early to figure out how profitable they will be, or they are about to fail. Either way, you won't really make money in day trading with them. The revenue is going to provide you with an idea of how much money a company is making. If you look at the revenue and see that it is consistently going up, this is a good sign that the company is growing.

- Fail

If you see that the revenue of the company is decreasing, then the stock falls, and you shouldn't use it for trading.

- Pass

If you see that the revenue is going up, then the stock passes and may be right for trading.

## Earnings per Share

The Earnings per share, or EPS, is going to show how much of the company's revenue is flowing out and into the pocket of its stockholders. The EPS is going to be the amount of money the company makes in profits per share of stock that it has.

- Fail

If you see the EPS score is going down, then the stock fails.

- Pass

If you see that the EPS score is going up, then the stock passes.

## The Return on Equity

The return on equity is very important when it comes to picking out the stock that you will invest your money in. The ROE can be a good indicator of how efficiently the management of a company is able to produce returns.

- Fail

If you see that the ROE is going down, especially if it has gone down over the past two years, then the stock fails.

- Pass

If you notice that the ROE has been going up for at least the past two years in a row, then the stock passes.

## Analyst Recommendations

You should take some time to hear what the analysts in the market say about a certain stock. While there are times when these analysts will miss out on important information or may miss out on a great opportunity, they do spend a lot of time researching the stock market. And when they are done, they will provide their recommendations. This can be useful information for a beginner in day trading:

- Fail

The recommendation fails if the consensus recommendation doesn’t reach the buy level.

- Pass

The recommendation is going to pass if the consensus recommendation is to purchase.

## Positive Earnings Surprise

Each quarter the company needs to release a statement about their finances. This is a legal requirement for them to be on the stock exchange and it provides investors and lenders will some important information about the

finances of the company. Before a company releases these statements, many analysts will make some predictions about the ESP for the company:

- Pass

If the earnings do come in and they are higher than what was predicted, then they pass.

## Earnings Forecast

As a day trader, it is important to have a good idea of what the company could potentially earn in the future. This will help you determine if anyone is likely to want to purchase the stocks later on.

- Fail

The stock will fail if the forecasted EPS is going to decrease.

- Pass

The stock will pass if the forecasted EPS increases.

## Earnings Growth

This is the number that a trader can use because it tells you how the analysts believe the earnings of a company will grow each year.

- Fail

If the long-term five-year number is under eight percent, then the stock fails.

- Pass

If the forecast for the long-term five-year number ends up being over eight percent, then the stock passes.

## PEG Ratio

Another number that you can look at is the PEG ratio. This is a ratio that will include the P/E along with other factors that were important in the growth for a company. As a trader, you want to make sure that you are working with stocks that are predicted to grow in the future, so this ratio can be really important in determining this information:

- Fail

If the ratio value is more than 1.0, then the stock fails your analysis.

- Pass

If the ratio value is less than 1.0, then the stock passes.

## Industry Price Earnings

The industry price earnings will show you the average of how much the company earns as compared to other companies in the same industry. This can help you to find out if the company is doing as good as, worse than, or better than other companies at that time:

- Fail

The stock fails if the P/E ends up lower than the industry's earnings for that time period.

- Pass

The stock passes if their P/E ends up higher than the industry's earnings.

## Days to Cover

The short interest is going to help you know the number of shares that investors are short on. The days of cover will refer to how many days it will take the short sellers to cover the position that they are in. This information can help you get a good idea on whether the company is profitable, how long it would take them to become profitable, and if this is really a good investment opportunity for you to work with.

- Fail

If the days to cover ends up higher than two, then it is going to fail your analysis.

- Pass

If the days to cover ends up lower than two, then it is going to pass your analysis.

The more items that a particular stock is able to pass, the better option it is for

day trading and making you a profit. With that being said, there are times when it is very hard for you to find a stock that is going to work with all of these different aspects, and you may have to decide which ones are the most important for your trading strategies. Try to hit as many, if not all, of these as possible to get the best stock for your trading needs.

Each trader is going to have its own strategy when it comes to picking out the right stocks to go with. But looking at the ten factors above can really make a difference in answering the question “What stock should I invest in?”

**CHAPTER 27:**

# Chart Patterns

We continue our look at tools that can help traders win at more trades while swing trading by taking a closer look at chart patterns. Some chart patterns can contain a wealth of information that you can just eyeball from the chart rather than diving into deep and complicated analysis. We will look at some of the most important chart patterns and explain how they can be used to determine when to enter and exit your trades.

## Flags

When there is a sudden shift upward or downward in price, followed by a sideways move, we have a flag pattern. A flat pattern represents a big move in price that occurs over a short time period. The flag pole is the part of the chart where the price shifts up or down. More indicators and tools have to be put to use to determine the meaning of the sideways portion of the move or the flag. It's possible that the sideways zone is a zone of support, which means that the stock is about to begin an upward trend. Alternatively, it could be a new zone of resistance, meaning that prices could start trending down. To determine which is which you will have to look at your candles and also take a close look at other tools like moving averages.

When the price moves up suddenly, this is called a bull flag. Demand may be reduced after a sudden surge in demand, and this is what forms the flag and flag pole. In order to estimate whether more upside is on the way, you can check the volume. When volume correlates to a bull flag pattern, then the odds are tipped in favor of the sideways move breaking into an upward trend.

Likewise, a sudden selloff can lead to a sudden drop in price followed by a sideways move, giving us an upside down or bear flag. Again, the bear flag might be a future level of support, but it could be a pause before a downward break in price. You will want to analyze using other tools such as candles and moving averages to get more insight, but once again the key indicator here is the volume of trading. If the volume is higher than average – and the higher the better to take the flag seriously – then we can consider the situation to be a genuine bear flag.

Flags are often triggered by an external event and aren’t the results of the usual humdrum trading. A huge sell off might be caused by bad news about the company, or maybe a rumor. Alternatively, a sudden product announcement, good earnings report, or other event might trigger the formation of a bull flag. A check of the news besides looking at all of your indicators might be in order as well.

## Head and Shoulders

A head and shoulders pattern is a peak, followed by a larger or higher peak, and then followed by another peak that is about the height of the first peak. The “head” forms the middle while the two smaller peaks flanking it are the “shoulders.” In other words, the price keeps moving up but hitting a limit and then moving back down to a floor pricing level. In the middle peak, it goes to a higher price.

A head and shoulders pattern is considered a reliable indicator of a coming trend reversal. Typically, it may be seen after a long bullish trend, so it’s a solid indicator that the bullish trend is over and a downturn in price is in the near future.




## Double Top

A double top is a less reliable but strong signal of a trend reversal. This is a bearish signal, indicating that the share price is about to enter a downward trend. It needs to be confirmed, however, and the confirmation requires a future breakthrough levels of support (so the price breaks lower than the prior level of support after the double top). The double top itself results from the price peaking at a high value twice, and it is unable to break that level. There may be other price fluctuations at lower levels in between to the two peaks.


Double Top
1st peak
2nd peak
Shoulder
Shoulder
Price
Double Top comfirmed
Period & Volume

**CHAPTER 28:**

# Support and Resistance

Stock is basically trapped within these price levels. A support price level is the lowest price that the stock is going to hit. You should see the stock price drop to the support level at least two times before deciding the price is a level of support. The more times the better, so if you spot three touches to the support price level, you have some reasonable assurance that for now, the stock price is not going to break below it.

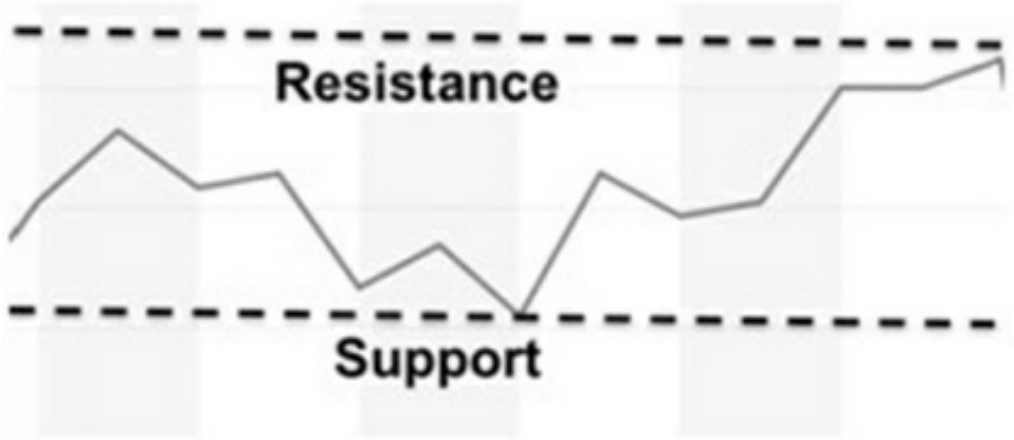
Keep in mind that this kind of reasoning applies under normal conditions. Something may change —and it could be anything, from the news that the CEO is resigning to a presidential investigation— that could cause the stock to break below the level of support. But we cannot worry about everything and as long as the signals are pointing to that price level being support, you can use that as a working piece of knowledge.

A support price level is a good price to use when buying stock. It is a reasonable assurance that you are buying the stock at the lowest available price under current conditions.

Resistance is the high price level. Many times, you are going to find that a stock is ranging between two price points. That is, there are price swings up to the resistance price level and then back down to the support price level.

Swing trading works very well in a ranging market. You buy your shares at the support price level, and you can set your limit order for a stop-loss just below the support level, using your tolerance for risk. Then when the stock price gets close to the resistance price level —if there are not any signals indicating that the price is going to keep rising— you can sell your shares and take the profits.

The basic idea of support and resistance is shown below.



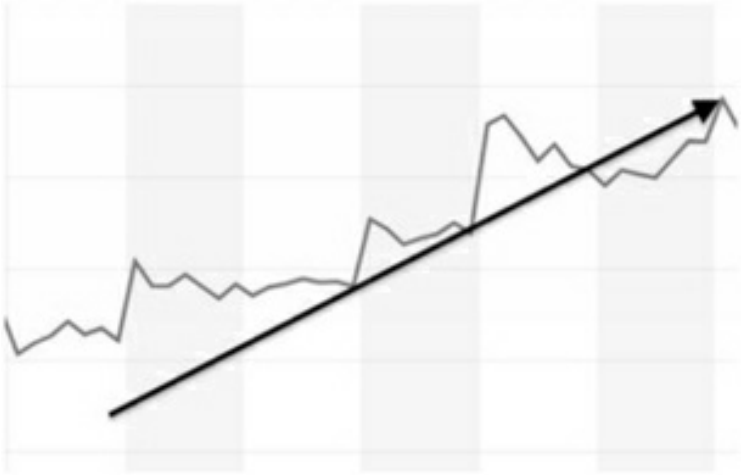

## Trending

The goldmine of the swing trader is found with large price swings. These can happen over the short-term, when traders become overly excited by good news, or when they become panicked and sell-off shares. Over a longer time period, large price movements can be a trend. While you can profit in ranging markets by taking small profits from the up and down price movements, it is really trends that you want to look for. This can result in large earnings over the course of days or weeks. In many cases, a trend is already going to be underway. So you can do some simple chart analysis in order to determine where the trend is going to end up.

Modern stock market charts, which are online or available in mobile apps, allow you to add lines to your charts. You can position the line at a certain point and then swivel it to point in the desired direction.

And of course, you can always print out a stock market chart and then manually draw lines on it with a ruler if that is your style or you cannot get the built-in lines to work.

In order to estimate where an upward trend will rise in the future, you simply draw a line through the low points of the small downturns that you see in the chart as the stock price rises. You must have at least two low points in order for this to work. Looking at a graph should clarify what this means.



As you can see from the chart —and this is real stock market data— the trend line accurately marked off a higher price point.

We can also use this technique to track downturns in stock price. In this case, you draw your line through the small peaks that come with the mini-price reversals that happen when the stock is trending downward. This method is shown below.



## Pennant Pattern

A part of learning to recognize chart patterns is to avoid being fooled by apparent changes in the trend that are short term in nature. This can happen when a stock price rises by a large amount, and then it enters a short time period where the price is ranging, swinging up and down in price by small amounts in comparison to the magnitude of the overall trend. This is called

consolidation. This is going to be followed by a breakout where the price resumes significant movement. When it converges to a low price during the consolidation period, this is a pennant pattern.



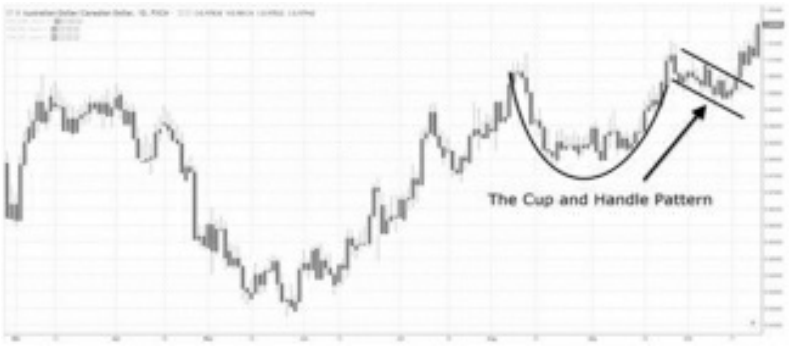

## Bearish Symmetric Triangle

When there is a bearish symmetric triangle, the price drops to a certain level, and then it rises to a new peak, which is lower than the preceding peak. Then it drops down in price again, but not as low as it had. Then you will see the price rise again, but this time the price cannot get as high in the preceding peak. So you will see three price peaks, each with a successively lower high price. You can then draw trend lines through the peaks and the low prices, and you will find that they converge. This shape of the converging trend lines forms a triangle, and it usually indicates a large breakout to the downside is coming.



## Cup and Handle

A cup and handle pattern can form after an uptrend. You will see the prices reach a peak value, and then there will be progressive patterns of rising and falling prices by small amounts, that reaches a bottoming-out point, before rising again slowly, until it breaks out. This forms a pattern that loosely represents a cup and handles formation.




Gartley or ABCD Patterns

In the 1930s, a stock trader named Gartley learned to recognize certain stock patterns that occurred before a breakout to the upside or the downside. These are called bullish and bearish Gartley patterns, and they are sometimes known as ABCD patterns. An example of a bullish Gartley pattern is displayed below.




What you want to look for is a 38% drop from point A to Point C. This should be accompanied by a 127% or 162% drop in low prices from price B to Price D. This is actually a buying signal, and it enables you to take advantage of a local low in price, before the stock starts rising in price again.

Conversely, there is a bearish Gartley pattern. This time you are looking for low prices A and C to see a 38% rise in price between these points. Then you are looking for a 127% rise in price from points B to point D.


SIEMENS WEEKLY
BEARISH GARTLEY PATTERN
X
A
B
C
D (PRZ)

**CHAPTER 29:**

# The 5-Step Swing Trade Test

Regardless of the financial securities you trade, e.g., stocks, cryptocurrencies, etc., trading opportunities abound once the opening bell sounds. But the question to ponder is those opportunities worth taking advantage of? In short, what’s the probability of profiting from available trading opportunities?

While many have sworn by those strategies, it may take time before newbie or intermediate swing traders get the hang of them such that they profit from their trades most of the time.

As a newbie or intermediate trader, what are you to do while still feeling the ropes? Don't worry; here are five important steps to "test" the trading opportunities available to you so you can have an excellent idea of their potential profitability. After you've practiced these five steps enough, you'll need but a few seconds to execute them.

## The Set-Up

This step refers to identifying specific conditions that can optimize your chances of swing trading profitably. If you're using a trend-following strategy, a trend must be present obviously as a condition for making swing trading positions. You must have established parameters or conditions for considering a particular trend as a tradable one. The ability to spot trends and evaluate whether they're tradable is a very essential set up if you employ a trend-following strategy, such as the MACD.

If the setup conditions you deem are important aren't there, don't make the trade. It's that simple. Following even just this one rule can save you a lot of emotional and financial stress.

## The Trade Trigger

When the basic conditions for evaluating potentially profitable trades are present or laid out, you'll need a particular and objective event, i.e., anything other than "gut feel," that will tell you to take positions. Some examples of

position-taking or trading triggers include:

1. After pulling back or ranging from new highs, e.g., correcting after breaching an important resistance level but still above it;
2. Price pullbacks, i.e., when a security's price pulls back to or near an established support area;
3. For Fibonacci Retracement traders, when prices hit important ratios, e.g., 23.6%, 38.2%, and 61.8%; and
4. For MACD and oscillator users, when indicators cross over or below their respective zero values.

## The Stop-Loss Order

While having the ideal trading conditions present and having a relatively objective trading or position-taking trigger is very important, it's not enough to ensure a good trade. Since no trading strategy's perfect, the risk of loss always looms on the horizon. Hence, you must also have a sensible approach to managing your market risk, i.e., the risk of losing money due to unfavorable changes in a security market price.

When it comes to market risk, you can't eliminate it, but you can manage it to minimize your potential losses on trades. The most common-sense approach to market risk management is a stop-loss order at a pre-determined price. This refers to trading orders placed in advance at specific prices that will compel the closing of a trade position to cut losses.

There are various ways to determine stop-loss order prices or triggers. These include:

1. Identifying the price at which your trading loss will be limited according to your maximum loss tolerance, in percentage terms, or dollar amounts. For example, if your loss limit is 10% per trade, determine the lowest selling (for long positions) or highest buying (for short positions) price that will correspond to a maximum trading loss of 10%.
2. It is choosing a price that's just a wee bit below the most recent low price swing or support for long positions, and for short ones, a price that's slightly above the most recent high price swing or resistance.

3. Choosing a stop-loss price within the vicinity of your trade's entry price based on a volatility measure called the Average True Range.

## The Profit-Taking Target Price

Now that you have clear ideas of the conditions needed to execute your trading strategy as well as when to take positions and cut-them short to minimize losses, it's time to get clear on the main reason for your swing trading: profits! Then you should set a profit-taking target price.

Why the need for a profit-taking price? If you don't set one up, there's a pretty good chance that greed will rear its ugly head and turn an already profitable trade (at least on paper) into a losing one.

You can set profit targets in two ways: based on gut-feel or based on established support and resistance levels. For example, if you took a long position at a price near the support line of a channel, consider setting a profit-taking target price near that channel's top or support line.

Don't let greed rear its ugly head and turn potential gold into garbage.

## The Risk-Reward Ratio

While the acceptable ratio may vary between traders depending on their risk appetite and profit goals, a good place to start is a 1.5 ratio, i.e., your estimated potential reward for the trade should be at least 1.5 times the possible loss. For example, if a trade has the potential to lose $100, it should also have the potential to make you at least $150 if things go well.

How do you determine the risk-reward ratio of your trade? A good and easy way to do it is by looking at your entry, stop-loss, and profit-taking target prices. The difference between your target entry and stop-loss prices is the risk component of the ratio. The difference between your target entry and profit-taking prices is the reward component. Divide the reward component by the risk component, and you get your risk-reward ratio.

If a potential trade you're eyeing up has a risk-reward ratio of lower than your established one, e.g., 1.5, don't make the trade. Remember, half of your swing trading success lies in your ability to avoid swing trades with high risks for trading losses.

The five steps outlined above function as filters that can help you sift high loss potential trades from the high-profit potential ones. These are general principles that you can use with the trading strategies to maximize your profit potential and minimize your risks for loss.

But as with all other trading strategies, these aren't perfect. There will always be some trades that may pass these filters but end up giving you losses. That's alright because if you do your homework right, Step 3 —Stop-Loss Orders— will be there to make sure your losses are tolerable and won't impair your ability to continue swing trading.

Before executing any swing trading strategy, make sure that the conditions are suitable for taking positions. Then, employ objective triggers, like crossovers or retracement levels, as signals that will tell you when to take positions. And before you act on those triggers, determine beforehand what your stop-loss and profit-taking prices will be so that you avoid trading on emotions, which can be very dangerous as you've seen in my example earlier. Finally, determine —based on your target entry, stop-loss, and profit-taking prices— the potential trades' risk-reward ratio. If it's less than your ideal, e.g., 1.5, don't make the trade and look for others to meet your ratio.

In the beginning, this can take you a couple of minutes to complete. But as you continue practicing these five steps, you'll become so adept at it that you'll be able to complete them in under a minute.

**CHAPTER 30:**

# Trade Downtrends

As a swing trader, you are going to need to have a flexible style of trading so that you can take advantage of all market conditions. If the country enters a recession, you do not want to have to sit on the sidelines and wait for things to rebound. A recession is actually a huge opportunity for those who are prepared to take advantage of it. There are several ways to profit when there are market downturns, and you can get started now, trading to profit on downtrends as well as uptrends when you see opportunities for the short-term downtrends that are sure to occur during the normal course of trading.

## Shorting Stock

The standard method that is used to make money off a downtrend is to short the stock. Many people are not clear as to what this really means, and so we will describe it in detail now.

When you are shorting a stock, you are expecting a downtrend in the stock price, or you have already identified one that you expect to last long enough so that you can earn a profit from it. You do not have to wait for a recession to trade downtrends. In fact, even if you are in a bullish market, you should trade some downtrends so that you can get experience doing so and you will be prepared to make profits if a recession does come.

In the first place, to short stock you are going to need to have an edge account. This is something else that you would prefer not to trust that a downturn will hit before you consider doing this. So the sooner you are prepared to open an edge account, the happier you will be as a dealer.

The way shorting the stock will work, is that you have to be ready to take action when the stock is at a relatively high price, but you are seeing signs of a downtrend. This will be something that you know, either from news events or from a bad earnings report or something like that, or that you have determined from an analysis of the charts.

The first step after identifying the potential downtrend is to borrow shares of

stock from the broker. Keep this clear in your mind; we are talking about borrowing shares of stock.

At that point, you quickly sell them. This is done to get money for the offers while the market cost is still at a generally high position. Remember that since you acquired the offers, you will need to return them to the representative, so clearly you are not done at this point.

Then you wait for the share price to drop. When the price drops to a level that you would be satisfied with, then you buy the shares back. Now you return the shares to your broker, and the transaction is completed. Your profits come from the fact that you were able to buy the shares at a lower price after having sold them at a higher price.

Let us look at a real-life example. On July 24th, 2019, Tesla was trading for $265 a share. Their earnings report was coming up, and many people expected it to be bad. Of course, you never really know but this was the expectation. This was a good opportunity to short stock because the information was fairly solid that the earnings report would not be very good. Of course, the problem is that you cannot be completely sure how the market will react, but it is a solid bet that the stock is

So let us say you borrow 100 shares. You can sell them on the market for 100 x $265 = $26,500. The following day, Tesla opened much lower and dropped all the way to $226 a share. At that point, you could have bought 100 shares back in order to return them to the broker. Doing so would have required that you follow the market very closely the day after the earnings call. At $226 a share, 100 shares would cost $22,600. So you buy them back, and then return them to the broker.

The deal is done, and you have made $3,900.

Not a bad take for a few hours of work. Of course, this is an idealistic situation. You might not find situations this lucrative, and when you are just starting out, you may not be able to borrow 100 shares. But it gives you an idea of how the process of shorting stocks works, and how a trader can earn large profits doing it.

## Taking Advantages of Downtrends with Put Options

Another way that you can take advantage of downtrends is by investing input options. This is a high-risk strategy, but put options gain in value when a

stock is declining. The strategy would basically be the same as outlined above. One advantage of put options, as opposed to shares of stock, is that they are going to be much cheaper, relatively speaking. While 100 shares of Tesla may cost you more than $20,000, a put option on Tesla might cost you a few hundred dollars. But when there is a large drop in share price as happened with Tesla after the earnings report, you can earn massive profits on Put options. So it would make perfect sense to use put options to short a stock, even though it is indirect.

A few important things characterize a put option. The first is that it has a "strike price." This is a price that the seller of the option agrees to pay for shares if you decide to exercise the option. So you could buy a put option on Tesla with a strike price of $250. It would be really valuable when the market price of Tesla drops to $226.

The second thing to know about a put option is that it has an expiration date. Options that expire in the near future tend to be cheaper than options that expire at later dates. But if conditions are favorable for the option, even if they expire tomorrow, they are going to have massive gains in value.

The first strategy is to swing trade the put options over a couple of days if you know a downtrend is coming. You can buy options that are not worth much because the share price is above the strike price, and then be prepared to sell them the morning after the earnings call. You do not want to hold onto them if you are not planning on selling the shares.

You can profit simply by selling the options. In conditions like that, they will be easy to sell. Every dollar drop in the share price is going to cause a large price increase in the option price. So if you would have entered a position with 3-5 put options on Tesla, you would have made thousands of dollars.

While you can make money selling the options to other eager buyers, you can also make money by exercising the options. You can exercise an option at any time. So if you had bought an option with a strike price of $265, keeping the example the same for the sake of argument, when the price dropped to $226, you could have bought 100 shares of Tesla, and then exercised the option. At that point, you would be able to sell the shares for $265 a share. So, you would profit the same $3,900 as the trader who explicitly shorted the stock. By law, the originator of the option contract would be required to buy the shares from you at $265 a share.

## Shorting the Market with ETFS

Another way that you can short the market is by using exchange-traded funds. There are actually exchange-traded funds that are designed for this purpose. In fact, there are exchange-traded funds that short the entire market, that will be useful when there is a recession, but there are also exchange traded funds that short market segments, industries, and sectors.

These types of exchange-traded funds are called inverse ETFs. The way that they work is that their price moves in the opposite direction of the market. The way to use these exchange-traded funds is to invest in them during a bull market so that you will be ready to sell them when the market actually does tank. This is not standard swing trading in most cases; although you can swing, trade them if you are on the ball when a bear market hits. If you do it the way I am describing here, you are going to have to hold these positions for a long time period.

But the nice thing about this is that when the market is bullish, shares in these funds are dirt-cheap. So you can take a significant position in them at a low price and simply hold onto it until a recession hits. Then you can bank significant profits.

The way that the funds work behind the scenes is that they take short positions. So you do not have to bother with shorting and let them take care of it.

Pro Shares is a company that offers exchange traded funds for this purpose.

SH is the short S & P 500. It takes short positions in the S & P 500 index. When there is a bull market, it is going to lose money. But you have to be patient and not worry about the losses, they are occurring on paper, essentially. When the bear market hits, you are going to end up making huge profits.

SDS is the ultra-short S & P 500 ETF. It actually uses derivative contracts. You should not buy and hold this for the long term, but keep it in mind for when there is an actual bear market. You can also short bond markets. This can be done using SAGG, which is the Direxion Daily Total Bond Market Bear. If interest rates are rising, this could be a fund that would be good to invest in.

CHAPTER 31:

# Swing Trading Guiding Principles

Let us look at the basic guiding principles that I build these strategies on. They are as follows:

## Keep it Simple

You may have heard of the term “paralysis by analysis.” This happens when you analyze something to the point where you cannot make a decision. Some swing traders overcomplicate their analysis of a security by using multiple indicators that all have to line up for them to enter a trade. In real life, everything does not often line up perfectly and you have to go with what you feel is right.

I have thus far covered many different tools and indicators you can use to help you to make a decision. You do not need to use all of them to be a successful swing trader. Once you find 1 or 2 that work well for you, you should then stick with those. If you decide to use a few different tools that need to align, it will likely mean that you are not going to be trading very often. That is not necessarily a bad thing though. It is better to sit on your hands and wait for a good trade versus jumping in and out of marginal trade setups and slowly lose your money. The only one who wins, in that case, is your broker, as they collect fees for all of your trades (the successful ones and the losing one’s).

Find several indicators that work well for you and focus on using them. Don’t trade often, but trade smart, by knowing why you are entering a trade and, most importantly, knowing your risk to reward ratio and exit price points. As you gain more experience in swing trading, you will be able to recognize better trades that are going to work out even if everything is not perfectly aligned.

Having said this, when you do happen to find a number of indicators that are all aligned with the trade you are considering taking, it can certainly provide some level of confidence that you have a potentially profitable trade.

## Treat your Swing Trading Activity like a Serious Business

Should you decide that swing trading is a right fit for your personality, and that it is able to fit into your life along with all of your other interests and responsibilities, then you need to treat this activity as a very serious business. It will require an investment of time and effort, which hopefully will lead to some very good rewards.

Have a designated area where you do your research and keep all of your records. You are essentially becoming a professional money manager for yourself, so you should keep your work organized at all times. Everything you do with your business should be oriented toward making sure you are a success. If you feel like a professional, then you are more apt to trade like one.

## Develop a Work Plan

Have a work plan and stick with it. Your work plan should include checking the market at the open and before the close. During this time, you should monitor your positions, set alerts and possibly enter orders at target levels that you think might get filled during the trading day.

I also recommend that you assess your portfolio and market performance every night from Sunday to Thursday to ensure your assumptions about your positions and portfolio are still valid.

It is important to establish a work plan and keep it consistent. By keeping your work plan relatively consistent, you can measure your performance without introducing additional variables. Measuring your performance allows you to find areas to improve and make changes as you see fit.

## Actively Manage your Risk to Reward Ratio; Focus on the Entry

As a swing trader, your first and most important tool is your capital or cash. As I have said before, without cash you cannot be a trader. I have written at length already about the necessity of assessing the risk to reward ratio on every trade and also on how much capital you should put into each trade. Following your rules on these points will prevent you from quickly losing all of your capital. You will be wrong on your trades some of the time and you need to make sure you live to trade another day.

Just planning and knowing your stop-loss and profitable exits are not enough

for swing trading. Your entry becomes the next important step in your trade. You have already determined your stop-loss point and your target price(s) for a profitable exit. However, you calculated the risk to reward ratio based on an assumed entry price point.

Let's assume you found a good setup during a scan in the evening after the market has closed. The security closed the day at $10.50 and you see an upside to $12.00 with support at $10.00 where you would stop out. Therefore, you have a potential $0.50 loss compared to a $1.50 gain to the upside. That is a 1 to 3 risk to reward ratio, which is very good, and you are ready to pull the trigger and place a buy order in the morning. The market opens the following morning and the security you are ready to buy opens up at $11.00. What do you do? The novice trader is already invested mentally in the trade so they buy. Unfortunately for them, their risk to reward is now 1 to 1 with the downside to $10.00 and upside to $12.00. This is no longer a good trade at that entry point.

The rational trader reassesses the situation. They may put a buy order in at $10.50, hoping to catch the entry they wanted on the security during the normal daily price gyrations in the market. This will give them the risk to reward ratio that they need to make a good swing trade. If they do not get a fill, then they need to reassess again, and maybe move on to finding another trade with a more appropriate risk to reward ratio. The bottom line, do not get emotional and chase a trade. The "fear of missing out" can motivate you to make a bad trade, and you should be aware of this when picking your entry price on a trade.

## Measure your Results and Adjust Accordingly

As a trader, you must track your results to measure your performance. Nothing gets improved that does not get measured first. Every trader should use a tool to record the different aspects of each trade, from initial assessment through to the risk to reward expected, the entry point, and, finally, the exit. The tool can be a spreadsheet; it can be done on paper or it can be web-based. It does not matter how you do it as long as the process allows you to track the details of each trade as well as your performance.

Once you have your trades recorded in detail, you can go back at any time and check how the trade worked. You can compare your performance on using the different indicators, i.e., is one working particularly well versus the

others that you use? Are you getting good entry points on your trades, or do you need to exercise more patience? Are your exits working, or are you consistently exiting a trade too early and not getting all of the money you could on a profitable trade? Are you respecting your stops?

Having all of this information will help you adjust your trading process and plan accordingly to maximize your performance without letting emotion enter into your decision-making.

CHAPTER 32:

# Platforms for Swing Traders

There is a variety of platforms available to swing traders. They come with a number of different features. These include premium research functions, news feed, charting tools, and even real-time price quotes. These additional features and tools enhance a trader's performance and make it easier to execute trades faster and accurately. Most platforms available today are designed for different financial instruments like Forex, stocks, futures, and options.

We basically have two different types of platforms. These are commercial platforms and prop platforms. Commercial platforms are mostly used by traders such as swing traders, retail investors, and day traders. They are largely easy to use and come with a myriad of features such as charts and a news feed.

As a swing trader, you will most likely be using commercial platforms provided by different brokerage firms. Even then, there are some things that you need to be on the lookout before choosing one. For instance, what are the included features? How about costs and fees charged? Also, different traders will require different tools on their platforms. There are certain tools that are suitable for day and swing traders, while others are more suitable for options and futures traders.

## The Home Trading System

The home trading system is an algorithm and trading software designed to improve performance. Using this system, you can expect to make smarter, faster, and better trading decisions. This particular platform comes with innovative features and a custom algorithm that combines seamlessly to provide a real-time fully integrated trading platform. You are bound to benefit from this platform and experience the benefits of seamless trading complete with all the features that you need.

The platform is completely compatible with some of the most dynamic and highly reliable charting tool. It is able to work with all kinds of markets, from

stocks to Forex and indices. The platform is compatible with a variety of bars, such as range and momentum bars, as well as tick charts.

The designers of this platform took great care to consider all the different kinds of traders. This is why this specific platform is suitable for day traders, swing traders, Forex traders, retail investors, and long-term traders. The Home Trading System constitutes a modular platform that consists of different core features. A lot of these features can easily be switched off and on depending on the situation or to suit a particular requirement.

One of the advantages of this platform is that it endeavors to make trading extremely simple. For instance, the algorithm automatically colors the candlesticks or bars a red or blue color in order to provide a clear view of the market conditions and trends. The system will continue following the trends and mark any major changes in a contrasting color. For instance, whenever there is a trigger bar, these will appear in a different color so that it is clear to you the trader that there is definite variation in the trend.

This color feature not only makes trading easy but also improves your trading psychology so that you can trade with very little worry. Other desirable parameters that are essential to your trades are also provided on the platform. For instance, you need accurate and reliable trading signals delivered at the right time. Fortunately, the Home Trading System is designed to provide these signals in a timely and accurate manner.

When there is a turning point in the momentum of stock in the markets, then this will be detected, and a change of color will clearly indicate the turning point. You will be able to see a blue color with contrasting orange color pointing out areas of interest. The dots will indicate the entry points, exit points, collect profit points and so on. A stopping point is also indicated just in case the trade does not work out as planned and you need to exit.

## The Entry Zone Platform

We also have a swing trading platform known as the Entry Zone. This platform has been around for a while but has recently undergone a complete overhaul. It has received a new design to address the needs of swing traders specifically. There is no trader in the entire world who wants to join an over-extended market even when it features a large stop-loss point.

One of the main benefits of this specific platform is that it helps eliminate the

challenge of entering an overly extended market. It starts by first checking for a pullback. It does this by accessing the 60-minute timeframe. This way, you will be protected from accessing the markets at the worst moment. The algorithm is able to proceed and track the markets so that you eventually get to find out the best market entry points.

## Able Trend Trading Platform

This is another platform designed with swing traders in mind. One of its most outstanding features is its ability to identify changes in the trend instantly. Trend direction is first indicated by a distinct color. When the signal is headed upwards, then the color is blue, and when it heads downwards, it changes color to red. If there is any sideways movement then the color changes once more to green.

This platform, therefore, makes it pretty easy to observe the market trend and keep abreast of it. Additional information will then enable you to make the necessary trade moves that you need to as a swing trader. For instance, you will notice red and blue dots on your screen. These indicate the various stop points. When there is a downward trend, then the red dots will indicate your sell points while blue dots will indicate your buy points on the upward trend. These stop points ensure that you partake of the large market movements but with very little risk or exposure.

The reason why this system is so successful is that it comes with state-of-the-art features. It generates dot and bars colors that you can choose for the different bar charts. These include the 5 minutes, 1 minute, daily, tick, and weekly charts. Many traders have termed this platform as both robust and functional.

You are able to make large profits if you are able to enter the markets and join the trend at an early stage. Identifying the trend is easy when you have this software. Remember that the trend is a friend of any swing trader. Therefore, spend some time at the beginning of your trades to identify the trend and then move on from here. Identifying the trend at an early stage is what you wish to do. The risks to you are minimal at this stage. This platform helps you identify the trend and provide you with additional crucial information that even large investors do not have.

You are able to operate on any market so that you are not limited to trading

stocks only. If you wish to swing trade options, currencies, and other instruments, then you are free to do so. The platform is suitable for all trading styles, including day trading, swing trading, and position trading, and so on.

## Interactive Brokers

This is a popular platform that has been recently revamped. It is highly rated software because of the useful tools available to traders. Some of these tools are extremely useful to sophisticate or seasoned traders who need more than just the basics.

This platform is able to connect you to any and all exchanges across the world. For instance, you may want to trade markets in Hong Kong, Australia, and so on. The software is able to connect so that you have great trading experience seamlessly.

This platform has seen the addition of new features that make trading even easier. These are, however, more suitable to seasoned traders who are more sophisticated than the average retail investor or small trader.

One of the attractive features of Interactive Brokers is that it is a very affordable platform to use. It is especially cost-friendly to small scale traders, retail investors, and the ordinary swing trader as the margin rates are low and affordable.

The platform supports trading across 120 markets located in at least 31 countries and deals in more than 23 different currencies. It also supports traders who execute trades pretty fast.

## Additional Considerations

The strategy is also crucial. As a swing trader, your strategy is to buy and hold for a couple of days or weeks. There are crucial factors that you need to consider, even as you choose a trading platform. For instance, how much automation do you require? Are there any manual functions that are necessary? How about risk management? What kinds of management approaches do you desire to cut losses and lock profits? A good level of functionality is definitely necessary.

There is also the issue of cost that you have to consider. As a trader, you can expect to incur some costs. Generally, if you are a regular swing trader trading in stocks, then regular platforms will do just fine. However, should

you require something specific such as a personalized platform, and then you will probably have to pay extra. Try and work with what is readily available rather than finding cool add-ons that may not be necessary at this point in time.

Some platforms are designed for specific financial products like options trading, day trading, currency trading, and swing trading, and so on. As a trader, you should find out if a platform is compatible with your trading style. Therefore, always have the product in mind. Geography is also a consideration is come cases because some platforms are only available to traders in certain jurisdictions and not others.

# Conclusion

If you are new to trading, you do not need a brokerage account in order to practice, and everything that you require to start swing trading is available for free on the Internet. As a new trader, you can do what is called “paper trading,” where you go through the process of scanning for trades, identify opportunities and pretend to enter the trade. Start with an imaginary account size that is the same as you intend to begin with if you do take another step and trade with real money. Try to keep your simulation as realistic as possible in every respect.

Journal your trades as you would with a real trade and see how they work out. If you find you enjoy the process and think it will work for you, then you can consider opening a brokerage account and putting your real capital at risk. Be aware that many traders say that it becomes a little more difficult when they switch from simulated or pretend accounts to trading with real money. This is because you are not as emotionally attached to your play money compared to your real money. Once emotions get added to the mix, trading can become more difficult.

Regardless of your level of experience, a swing trader gets to slow everything down, and that is an advantage, especially for new traders. You do not get caught up in a process where you need to make a decision in a matter of seconds. This type of pressure situation is where many day traders lose out and let their emotions get the better of them. Swing traders have the luxury of time to make their decisions and are less likely to make an impulsive trade move in the heat of the moment. Regardless, all of us have mental weaknesses that we must overcome as traders.

As a disciplined trader, you will do your scans of the charts, recognize patterns, and develop trading strategies. You will make a plan and stick with it unless something fundamentally changes with the reasons you entered the trade. And that can happen. You should stay in tune with the market and be aware that you might need to adjust your trading strategies as the market sentiment changes. You must also accept that there is no shame in losing on a trade. Not all trades will go in your favor. You need to accept that and move on.

If you do not follow your trading plan when the trade does not work out, then you will likely pay the price in your account. Some traders are unwilling to accept a loss and exit stocks that trade against them. Others will take small profits early instead of waiting for their planned profit target. These are the actions of a trader who will struggle to make gains.

Investors and traders should always consult with their licensed financial advisors and tax advisors to determine the suitability of any investment.

# FUTURES TRADING

Futures Trading For Beginners, Investing In Strategies, Options For Income

**MARK REESE**

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# Introduction

Futures contract is a type of derivative in which the underlying asset of the contract is paid for in advance of its delivery. Futures deal almost exclusively in commodities though there may be futures contracts in other assets such as currency. Futures are generally traded on all major stock exchanges around the world. Therefore, futures are not just limited to one specific exchange.

In the 1840s, Chicago was becoming the mecca of the commercial exchange with railroads and telegraph lines connecting through it. In 1848 the Chicago Board of Trade was formed which gave birth to the futures contract. The very first futures contracts were created for commodities, specifically agricultural commodities.

If you have ever read about futures the typical story-line about them is that they were created to help farmers hedge against the price-fluctuations of the crops that they produced. Futures can be a great way to hedge market-specific risk and they can also be used for regular trading and speculation. Futures are a leveraged product which can help traders reap huge profits, but also carries significant risk.

Since futures deal with assets whose price fluctuates according to market conditions, keeping open positions for a longer period of time may expose investors to sudden market fluctuations. For instance, oil futures tend to be the riskiest of all.

Since day trading implies opening and closing positions on the same day, investors can avoid the ups and downs that come with leaving positions overnight. In addition, futures are often traded after the close of markets in the United States. That implies that fluctuations in Asian markets will have a direct impact on futures traded in the United States. So, if oil futures fall during trading in Asia, an investor in North America may wake up to an unpleasant surprise. By cashing out at the end of the day, day traders can ensure that there will be no surprises at the beginning of the trading day. Advanced day traders may choose to keep positions open overnight. However, derivatives are the riskiest type of investment vehicles. This is why

it’s vital for investors to be absolutely clear on the advantages and disadvantages that come with dabbling in these markets. The first futures contract that was ever traded was for corn. After that, it was followed by wheat, soybeans, cotton, cocoa, orange juice, sugar, pork cattle, and many others. Contracts for other products slowly began to develop. By the 1970s futures trading began to penetrate other markets.

The terms of a futures contract are standardized in quantity and the delivery date. The exchanges facilitate trading between buyers and sellers. In order to trade futures traders, need to obviously put up cash, which is commonly referred to as margin in futures trading. A proper margin must be maintained for the life of the trade. Traders need to have a sufficient margin in order to trade futures. This will usually depend on the kind of future that is being traded and how many contracts.

**CHAPTER 1:**

# How to Start Trading

Stop-loss orders are the more secure means of trading a futures contract. These orders are basically instructions that stop the damage at a fixed level. In addition, they may also lock in profits; hence, investors would benefit from having stop-loss orders.

Stop-loss orders are placed at the point when trade commences. For example, with respect to frozen concentrated orange juice contracts, the sale price of Dan Aykroyd was $1.42. Eventually, the price would decrease to 29 cents. This would cause significant damages to anyone purchasing these contracts, just like the damage caused to Ralph Bellamy and Don Ameche. However, if they had purchased Aykroyd's contract with a stop-loss order of $1.40, they would have been automatically removed from the position when the price dropped lower than $1.40. This would have decreased the substantial amount of loss they incurred otherwise.

In contrast, when the price increased to $1.50, Bellamy and Ameche could have modified their actual stop-order from $1.40 to $1.48 to make sure that they achieve profits of at least eight cents in case the price of concentrated orange juice starts decreasing again.

When people look at secure investments, they frequently have to pay a price for it. For example, continuing with the example of stop-order at $1.40, a situation may arise when the price dropped for a little while to $1.38 and then quickly increased to more than $1.50. These profits will not be added to your bank account as your contract ends automatically at the instant your price touches the stop-loss order limit.

A stop-loss order should not be canceled after it has been placed. You were the one who started the order, possibly as part of a comprehensive investment strategy, and it would not be a good idea to cancel it as an emotional response to events that take place subsequently. Also, do not change your position in a market without sensible and logical reasons. If you like to work in the absence of a net, you can work without stop-loss orders. However, you should realize that this creates the chance of losing a more significant amount

of money than what you have in your bank account.

A stop-loss order is essential because of the margin call. As you invest a small proportion of the contract value, it is vital to have a minimum amount of cash in your account, which is known as the maintenance margin. When the price of the commodity goes below that level, a margin call is made so that you can increase the amount of money in your account up to its initial level. When a margin call is made, you should instantly pay. If you do not do so, the brokerage is capable of liquidating your overall position to meet the losses. This is the reason why so many people gave up their lives when the stock market tumbled in 1929.

Similar to your overall investment portfolio, a significant part can be played by diversity in decreasing the risk inherent in trading futures. The most successful traders across the globe restrict their investment in a single commodity to a maximum of 3 to 5% of their trading capital. This is what your approach should also be. You should create your positions in as many markets as possible, for example, in gold, corn, crude oil as well as the NASDAQ. However, you should make sure that you avoid entering a market without reasons to back your investment. That is, do not attempt to develop a diversified futures portfolio just for the sake of diversity.

When you are looking for new markets to develop a portfolio, you should see further than the big exchanges, such as the Chicago Board of Trade or the Chicago Mercantile Exchange, and other exchanges where it is possible to take up significantly small-scale contracts (up to 80% smaller). This would make it easier for you to enter into various commodities. You can also participate in paper trading (using imaginary trades and adopting real-market outcomes for a given time period), if you believe that this approach of acquiring information about new investments is useful. However, this approach is not similar to trading with actual money.

**CHAPTER 2:**

# How to Read the Main Tools and Charts

## Futures Contract Codes, Sizes and Trading Months

Each futures contract has a unique one- or two-letter code assigned to it that identifies the contract type. Futures codes or ticker symbols are used by the exchanges to process all trading transactions. For example, the symbol for corn is C, while the mini-sized corn future is YC. It is imperative to use the correct code when you trade; otherwise, you can end up trading the wrong contract.

In addition to the contract code, you must also know the month and year code. The month code J represents April and K represents May etc. So, if you want to trade the May corn future in 2011, the code would be CK5. See Month Codes Chart below:

It is imperative to understand a contract's value. This is how you will determine the profit and loss as well as the entry and exit price when you trade. Futures contracts have a minimum price increment called a tick. Traders use the word tick to express the contract movement or amount that a market has moved up or down.

Another term you will have to understand is the term "multiplier," which determines the value of a tick. For example, the multiplier for the Canadian dollar is $10. The market moved up by 20 ticks in one day. This means your long contract has gained $200 (20 ticks X $10.00 multiplier = $200).

## Contract Codes and Specifications Chart

| Full Contracts | | | | |
|---|---|---|---|---|
| Contract | | Delivery | Contract | Minimum |
| Corn | C | H,K,N,U,Z | 5,000 bu. | ¼¢/bu = $12.50 |
| Oats | O | H,K,N,U,Z | 5,000 bu. | ¼¢/bu = $12.50 |
| Soybeans | S | F,H,K,N,Q,U,X | 5,000 bu. | ¼¢/bu = $12.50 |
| Soybeans | | | | |

| | | | | |
|---|---|---|---|---|
| Meal | SM | F,H,K,N,Q,U,V,Z | 100 tons | 10¢/ton=$10.00 |
| Soybeans Oil | SO | F,H,K,N,Q,U,V,Z | 60 000 lbs | .01¢/lb = $6.00 |
| US T-Bonds | US | H,M,U,Z | $100,000 | 1/32 = $31.25 |
| US T-Notes 10yr | TY | H,M,U,Z | $100,000 | 1/32 = $31.25 |
| US T-Bonds 5yr | FV | H,M,U,Z | $100,000 | 1/64 = $15.625 |
| Wheat | W | H,K,N,U,Z | 5,000 bu. | ¼¢/bu = $12.50 |
| Australian Dollar | AD | H,M,U,Z | AD100,000 | .01¢/AD=$10.00 |
| Canadian Dollar | | H,M,U,Z | CD100,000 | .01¢/CD=$10.00 |
| British Pound | BP | H,M,U,Z | BP62,500 | .02¢/BP=$12.50 |
| Eurodollar | ED | H,M,U,Z | $1000,000 | 1pt. = $25.00 |
| Euro | EC | H,M,U,Z | € 125,000 | .01¢/€ = $12.50 |
| Feeder Cattle | FC | F,H,J,K,Q,U,V,X | 50,000lbs. | 2.5¢/cw=$12.50 |
| Japanese Yen | JY | H,M,U,Z | JY12,500,000 | .0001¢/JY=$12.50 |
| Lean Hogs | LH | G,J,M,N,Q,V,Z | 40,000 lbs. | 2.5¢/cwt = $10.00 |
| Live Cattle | LC | G,J,M,Q,V,Z | 40,000 lbs. | 2.5¢/cwt = $10.00 |
| Live Hogs | LH | G,J,M,N,Q,V,Z | 40,000 lbs. | 2.5¢/cwt = $10.00 |
| Mexican Peso | ME | H,M,U,Z | MP500,000 | .0025¢/MP=$10.00 |
| S&P 500 | SP | H,M,U,Z | $250 x Index | 0.05 = $12.50 |
| S&P Mini | ES | H,M,U,Z | $50 x S&P index | 0.25= $12.50 |
| Swiss Franc | SF | H,M,U,Z | SF125,000 | .01¢/SF=$12.50 |
| | | | | |

| | | | | |
|---|---|---|---|---|
| US T-Bills | TB | H,M,U,Z | $,1000,000 | .01 = $25.00 |
| Cocoa | CC | H,K,N,U,Z | 10 metric tons | $1/ton = $10.00 |
| Coffee | KC | H,K,N,U,Z | 37,500 lbs. | .05¢/lb =$18.75 |
| Sugar #11 | SB | H,K,N,V | 112,000 lbs. | .01¢/lb = $12.00 |
| Cotton | CT | H,K,N,U,Z | 50,000 lbs. | .01¢/lb =$5.00 |
| Orange Juice | JO | F,H,K,N,U,X | 15,000 lbs | .05¢/lb =$7.50 |
| Copper | HG | All Months | 25,000 lbs. | .05¢/lb = $12.50 |
| Gold | GC | G,J,M,Q,V,Z | 100 troy oz. | 10¢/troy oz = $10.00 |
| Silver | SI | H,K,N,U,Z | 5,000 troy oz. | .005¢/troy oz = $25.00 |
| Mini Contracts | | | | |
| Corn | XC | H,K,N,U,Z | 1,000 bu. | ¼¢/bu = $2.50 |
| Soybeans | XS | F,H,K,N,Q,U,X | 1,000 bu. | ¼¢/bu = $2.50 |
| US T-Bonds | YH | H,M,U,Z | $50,000 | 1/32 = $15.625 |
| US T-Notes 10yr | XN | H,M,U,Z | $50,000 | 1/32 = $7.8125 |
| Wheat | XW | H,K,N,U,Z | 1,000 bu. | ¼¢/bu = $2.50 |
| Eurodollar | UD | H,M,U,Z | $500,000 | .005 = $6.25 |
| Feeder Cattle | FM | F,H,J,K,Q,U,V,X | 10,000 lbs | .001 = $10.00 |
| Lean Hogs | HM | G,J,M,N,Q,V,Z | 10,000 lbs | .001 = $10.00 |

CHAPTER 3:

# Futures Trading Strategies

Many day traders find futures preferable to options because they are sure to always move along with the asset that they are related to. What's more, the futures market can be analyzed directly which means that you can profit from anticipation on the market without having to take any derivative pricing into account.

Even better, unlike some other markets, there are no artificial restrictions limiting your ability to short trade, making your job as a day trader much more comfortable in the process. A pattern day trader is required to keep $25,000 on hand at all times, among other things, and being labeled as one will make it more difficult for you to trade as effectively as possible.

## Always follow the trends

If you are attracted to futures trading, then you are less naturally inclined to follow trends in the market, preferring instead to jump in on opportunities when they are still forming. This is a habit that you are going to need to break if you plan on trading in futures, however, as typically you will find that the practice is much more profitable if you stick with the trends of the major players and deviate from them as little as possible.

## Don't prioritize trade frequency

While it is natural for day traders to make more trades than other types of traders, that is no reason to assume that there are always future trades that can be made at the moment. It is essential to always keep in mind that it is possible to be a successful day trader while making three trades a day just as it is to be successful while making 30 trades per day. It is all about choosing your futures targets carefully and with a clear understanding of where all the trades are likely headed. Don't forget, before you finalize any trade, you should always run a full risk/reward analysis to ensure that it is going to be worth your time in the long run.

## Know what a good futures contract looks like

Prior to starting any trade, it is crucial that you take the time to gather as

much information as possible in order to ensure you prevent any further surprises from sneaking up unannounced. It is crucial to keep in mind that futures contracts may have a number of critical differences that will need to be considered before moving forward. First, it is vital that you know the contract unit in question as each potential futures contract will show the size as well as the units it is trading in.

Forex futures will always be specified with a given currency, while those based on stock indices generally include a reference point on the index multiplied by a specific price per share. The specifics of this measurement aren't as important in most instances as they are generally only crucial in the moment to help you understand precisely what you are getting yourself into.

Outside of these types of specifics, you will need to keep in mind the quoted price as well as how this quote is likely to change between markets as sometimes they will be written with dollars and cents while other times they will be written with mathematical equations, possibility points or percentages. The end result will always work out to be the same, but it is essential to know precisely what you are working with prior to moving forward.

**Choosing the right contract**

Prior to choosing the right contracts to follow, it is vital to understand the various levels of insecurity that are taking place in the market in question compared to the potential for a severe payout should things go just right. This is vital as there is a great deal more variance in the futures market than in the others as they encompass a far greater variety overall. When it comes to making these types of decisions it is also important to remember that past performance is not going to be an accurate predictor of future results in this instance. This means that just because a price has remained stable for several days is no indication that it will continue to do so.

**Look for the right signals**

When day trading futures, it is essential to keep in mind that the best results will typically materialize if you use a trio of indicators that aren't specifically corollary to one another. You will need to keep an eye on the sine wave as a means of determining the price when it comes to support and resistance, the momentum to determine the volume in comparison to the supply and the pro-am as a means of determining the specific trade size to help determine how

much interest the market has in the trade at the moment.

Generally speaking, you can expect to have the ability to plot the sine wave through the lowest chart pane which will give you a measure of the current cycle. When levels of support and resistance are both confirmed you will see the results mapped via dotted lines on the price bars in question. You will also find the momentum plotted underneath the bars indicating the price and it will then be represented by waves to show the volume when it comes to buying and selling.

You will also find various divergence patterns that can then be directly plotted onto various additional price bars as well. When it comes to tracking the pro-am you will be able to quickly consider what types of active traders are sitting on various price points. If you find a lot of highs, then you can be confident that it means there is lots of position switching taking place at the top of the spectrum. Meanwhile, lots of lows should tell you that the breakout is on its last legs which means it could likely reverse at any time.

### Consider the direction the trend is forming

More so than in more traditional forms of trading, if you manage to find a trend while day trading, then there is a high chance that you will be able to successfully make a profit off of it, assuming it sticks around long enough to let you. When it comes to confirming the direction of a potential trend, you will want to take note of professionals who are trading in the space before confirming that the trend is set to continue on moving forward as well. You will want to keep an eye out for indicators that it has reached a point where its volume is exhausted, as this means it is likely on its last legs.

Stick with a single market: While the futures market tends to have various subsections devoted to various different markets, this doesn’t mean that you should bounce between them all as you will have far more success if you stick to those which you see some early success. Once you have mastered a specific subsection of the market, you can then move on to the next, but until that point, you will want to focus on the way you can increase success in the long-term.

## Futures Spread Trading Pricing and Margins

It is essential that you keep in mind that if they are part of a spread, then the individual margins on a given contract will be reduced. For example, if the

margin on a given wheat contract alone is $2,000 but if you make the decision to go short as well as long on wheat in the same year then the margin between them could potentially be as little as $200. If you go short and long on one commodity split over different years then the margin will double to $400. The price differential occurs as the volatility of the spread is less than that of the contract in question.

Generally speaking, the futures spread gives you the ability to look at the given market movement in slow motion. Thus, if something significant happened in the wheat market then it would affect both contracts which would provide enough protection against the increased risk that the singular contract doesn't have.

### Price concerns

The price of a specific futures spread can be easily determined via the perceived difference in two contracts. To accurately determine what the spread's pricing is going to be the easiest way to go about doing so is to simply find the pricing of the spread simply subtracts the month that is being deferred from the price of the front month. If the price of the front-month is the lower of the two, the spread will end up being harmful and if it is higher than the spread will end up being positive. The values for the contracts as well as the spreads will remain the same. For example, if the price of wheat is $500 in the first month and $510 the next, then the spread can be said to be -$10 and if it instead dropped to $490 then it would be $10.

## Common Spread Types: Commodity Futures

Inter-commodity futures: These futures involve contracts that are spread across various markets. As an example, if you believe that the wheat market is going to experience a high demand when compared to the corn market then you would buy wheat and sell corn. The specific prices for each don't matter as long as wheat prices beat corn prices.

### Calendar Intra-Commodity

This spread looks at a single commodity between differing months of the year. As an example, if you believe that the wheat market is going to be stronger in November as opposed to June then you would go long in November and short in June. The specifics of the price don't matter as long as prices are higher in November than they are in June.

**Bull futures**

This spread looks at a single commodity under the assumption that the sooner month will boast a higher price than the last month. As an example, if you buy a bullish wheat future in May, then you will want the price to be higher than when you sell it in June. For this type of future, it is crucial to keep in mind that near future contracts tend to move faster the further you get from the first month which gives this future its name. A bullish trader would then be one who buys in the first month in hope that it ends up moving at a higher rate than the deferred month.

**Bear futures**

This spread occurs if you purchase the same commodity in such a way that you are short in the front month and long on the deferred month. As an example, if you purchase wheat in May and sell it in June then you are hoping the prices are lower in May than they will be in June. For this type of future, it is crucial to keep in mind that near future contracts tend to move faster the further you get from the first month which gives this future its name. If you are confident that prices are at a low point, then this is the type of spread you should consider buying into.

CHAPTER 4:

# Which Market to Trade in and Which Broker to Use

Almost every commodity that one uses in one's daily life and significant investment areas are covered by futures and options contracts at exchanges across the globe. There are several key factors that you should look at besides the trend and trade setups before entering a trade.

## Margins

When you enter into a trade, the exchanges will require a margin to be paid as your insurance will fulfill the terms of the contract. The size of margins can differ substantially from one commodity contract to the next. For example, an index contract margin like the S&P 500 can be as high as $25 000, whereas some of the grain contracts can be as low as $400. The amount of margin depends on the size of the contract and the volatility of the commodity. Make sure that you have enough money in your trading account to cover your margin. If your contract position makes a profit, you will get back your margin plus your profit. If your contract position is making a loss and the loss exceeds your trading account's size, you will get a call from your broker requesting you to replenish your account with more funds immediately to maintain your trading position. This is called a margin call.

## Volume

Before you enter into a trade, it is essential to check the volume of the contract. Volume is the number of contracts traded daily. To calculate the volume of a particular day, you have to add only the number of long contracts for that day and not the short contracts. Remember, the futures market is called a net some zero game. In other words, for every winning trade, you have a losing trade, and with every trade, you have someone buying and someone selling a contract. Markets with a high volume give you the chance to enter and exit a trade at your choice levels. If the volume is too low, no one may be able to take the other side of your trade. This means that you are likely to get poor execution on your orders.

## Open Interest

This is the number of contracts still open at the end of each day. It is also an excellent guide to the market's liquidity. Low open interest indicates little trading interest, and potentially harmful "fills" are very likely.

## Volatility

When the price of a specific commodity is very volatile and is rapidly moving over a wide range every day, your trading account could be wiped out very quickly, even if you are right about the long-term trend. You have to study the historical volatility of a commodity before deciding to trade and then decide if the volatility suits your risk profile. While some commodities may have high open interest and volume, proper money management may limit your trade to other commodities with less volatility. In other words, you should trade the commodities with a smaller daily trading range.

A trader must be orderly enough to know when they will be at their trading desk or not. If you decide to work in the morning or when specific markets are opening, then list that in your trading plan. Make sure that you are not on the charts at a time when the plan says that you should be elsewhere.

You must be very specific on the market and financial instruments that you will be trading. If you decide to trade stocks, binary options, futures, cryptocurrency, or forex, list it down. Narrow your definition further and list the specific instruments that you will be trading within your chosen market. For example, if you will be trading cryptocurrency, will you go for Bitcoin or Etherium?

Every business needs to evaluate its performance and know whether it is making profits or losses. Similarly, you need to come up with some ways to tell whether you are growing or not. You can decide to conduct your evaluation after a number of trades or after specific durations.

You should list all the components in your trading strategy and ensure that you adhere to them before executing any trades. List the way that you will be conducting your analysis from the analysis stage to the time you enter a trade. If you use indicators, define them, and explain how you will use them.

**Do not forget to include stop-loss and take-profits**

By the time you decide to deposit money with a broker so you can go live,

you should have known how much money you can afford to use in trading. Initially, only invest what you can afford to lose without losing your mind. You can grow your capital as your experience expands.

Position sizing should also come here. You must decide how much money to risk per trade. Make sure you adhere to the money management rules that you come up with, no matter how appealing a trading setup looks.

## Who Will Be Your Broker?

The choice of broker that you go for is crucial to your trading success. Conduct proper research on the best broker to work with. Some qualities of a good broker include:

- They are regulated by a relevant monetary body.
- They offer all the instruments that you need to trader.
- They are cheap in terms of commissions and other charges.
- They are reputable in all aspects.
- They are accessible any time you need them.

### What are your strengths and weaknesses?

Finally, you must evaluate yourself and see which of your traits make you a better trader and which ones limit your potential. Identifying your strengths will keep you motivated, and you will pay more attention to your stronger side. On the other hand, identifying your weaknesses will allow you to know what needs some improvement. You will become a better trader as you work on more of your limitations.

These are just some of the elements that you can include in your trading plan. You can add more as you please, as long as they add value to your trading career. The most important thing, however, is that you follow the rules in your constitution to the end. If you only compose it and stop at that, it will be as good as seeing a good trade setup and letting it go.

CHAPTER 5:

# Utilizing Binary Options

Every binary options trader needs to have some useful tips if they are successful and profitable in their binary options trades. Trading binary options are risky and not simple. However, with the right information and advice, you can always turn it into a profitable venture.

While it is not easy, it is much more relaxed or less complex compared to Forex trading. As a trader, you need to invest your time and resources into understanding the trade and putting your knowledge to the test, especially on different trading platforms. Here are some advanced tips for intermediate traders.

## Learn to set up your workstation professionally

As a trader, one of the first things that you need to get in order is setting up your workstation as required. As you transition from a novice to a more experienced intermediate trader, you will need to make big changes to your trading environment. You need to aim for a more professional platform.

At this stage, it is not necessary to invest lots of money on infrastructure or trading platforms, but the least you can do is to open up and widen your horizons, so you have access to more and better resources. There are a couple of things that make intermediate or other options traders successful. One of the most crucial is having access to all the information, data, and other resources necessary. This access to information makes binary options traders a lot more successful than all others without this kind of access.

Keep in mind that setting up a conducive trading environment does not necessarily entail only improving your systems. It is more than that as you need to have a variety of ways of accessing tools such as charts, performing fundamental analysis, technical analysis, and choosing chart types.

## Improve consistency with progressive technical analysis

As an intermediate trader, you are aware of the kind of information that traders, especially beginners, are bombarded. There is plenty of information from all over, including news, analysis, and so on from numerous different

sources. In many cases, it becomes difficult to sort out all this information and find what is useful and adds value to your trades.

As an intermediate binary options trader, you should not just take in all the information or technical analysis that comes to you. This is what happened to you as a beginner, and it probably slowed you down and confused you. What you need to do is to slowly study the various tools out there as well as the multiple strategies accessible to you. Check them out and find the ones that are suitable for you. There are thousands of different tools out there. Simply sieve through most of them and find the few but effective ones that fit your purposes and meet your needs. Sometimes using multiple tools and information sources may sometimes be detrimental to you.

**Experiment with different options**

Beginners often get caught up in the different options and assets out there. These are numerous in number and can possibly confuse traders. Novices and beginners will not necessarily be able to handle this vast pool of options and assets. They will get confused and lost, not knowing what to do.

However, as an intermediate trader, you will need to develop a little bit of skill-based on your experience on how to identify the tools and systems that you need. Not all trading platforms offer all the tools that you need. However, you should be able to take the time to find the tools that will help you devise a strategy that works for you. If you devise and work with a flexible system, you can almost be guaranteed to be successful in your trades.

It is advisable to experiment with different options, binary tools, and products. However, do not over-experiment because it can cost you time and resources. Spend some quality time implementing some of these strategies and find the one that works best for you.

**Adapt expert money management skills**

One of the most crucial aspects of binary options trading begins right away. You will need to adopt some rules as well as systems that will assist you with money management. This is an aspect that seriously determines the outcome of your trades as well as long term profitability.

As an intermediate trader, you can take advantage of advanced money management tips often adapted by advanced traders. Some of these include tips on managing and controlling risks, how to minimize or reduce capital

outflow, how to manage your funds so that you capitalize on profitability, and minimize losses.

You will also have to work and improve the technical analysis skills that provide you with the information that you need. If you can access the right kind of information, have access to tools and systems to perform analysis, and learn the proper money management skills, you will be well on your way to successful binary options trading. Also, remember always to keep learning. The more you learn about your trade, the better you become at it. Plenty of successful binary traders are often learning new things as well as learning from their mistakes.

**Avoid trading binary options when feeling emotional**

This logic applies to almost every endeavor of man. An emotional person is an unreliable person.

**Do your homework**

Make sure to view the graphs, the charts, and all the analyses for an extended period. Try to define a pattern, if any, and learn to interpret the signs.

**The first sign of a win is all you need**

Once the mark is reached, take it. Do not aim higher or let your stocks linger. You can try doing it some other time.

**Listen to what others are saying**

Keep yourself updated and aware of drastic changes in the news. Understand the root cause that way, and you can corner the market when it rises or falls.

**If you are unsure about a trade, do not buy into it**

Gut feeling is not an option when trading. Choose your assets wisely. Although new assets are tempting, always choose first the most common. Shared assets are most likely discussed in forums more often, and through such discussion, you can learn a lot. Use this information to your advantage.

**Start small and slow**

Do not let a win make you feel indestructible. Employ some sense of self-control. Be grateful for what you earned, and do not bite more than you can chew. Avoid long-term binary options until you are ready for it. Choose an hour-long trade or the shorter 60 seconds to maximize profit and minimize

risks.

**Do not expect to get rich quick**

A make rich quick scheme may prove problematic in the long run. Again, this is a subject of careful reading, analyzing, and researching, not sheer luck.

**Timing is an essential factor in binary trading**

One needs to be able to act fast and should allot time for trading. Do not leave your short terms open and leave while the iron is hot. Do not invest when the market is volatile or jumpy. A jumpy market can cause enormous profits, but at the same time, significant losses too.

**Know all the strategies**

**Trading with technical analysis –** This strategy uses charts, graphs, and the likes. This strategy follows the principle that "the market remembers." This implies that what happens in the past can happen in the present and will happen in the future.

**Trading with trader's tendency indicators –** your broker provides typically this. This report shows the percentage of traders buying and selling the asset. You need to be careful with this report, for this is not a clear indicator of an increase or decrease in the value of an asset. Not because everyone else said so means that it is correct. Try forming your own opinion.

**Trading with fundamental analysis** – This strategy focuses on economic statistics as well as the overall economic climate to predict changes in asset values.

**Trading martingale –** The martingale is a betting method wherein the initial investment is increased every time there is a loss until such a gain or a win is achieved.

This follows the concept of break-even. The most experienced trader does not recommend this strategy to beginners and masters alike.

CHAPTER 6:

# Best Profitable Strategies That You Should Use in Different Scenarios

Strategies are usually laid in the trading plan and should be strictly implemented in every options trading move that is likely to be involved.

## Collars

The collar strategy is established by holding a number of shares of the underlying stock available in the market where protective puts are bought and the call options sold. In this kind of strategy, the options trader is likely to really protect his or her capital used in the trading activities rather than the idea of acquiring more money during trading. This kind is considered conservative and preferably much more critical in options trading.

## Covered Calls

Covered calls are a right kind of strategy where a particular trader sells the right for another trader to purchase his or her stock at some strike price and get to gain a right amount of cash. However, there is a specific time that this strategy should be utilized and in a case where the buyer fails to purchase some of the stock and the expiration date dawns, the contract becomes invalid right away.

## Cash Naked Put

Cash naked put is a kind of strategy where the options trader gets to write at the money or out of the money during a particular trading activity and aligning some particular amount of money aside for the purpose of purchasing stock.

## Long Call Strategy

This is the most basic strategy in options trading and the one that is quite easy to comprehend. In the long call strategy for options trading, aggressive option traders who happen to be bullish are pretty much involved. This implies that bullish options traders end up buying stock during the trading activities with the hope of it rising in the near future. The reward is unlimited in the long

call strategy.

## Long Put Option Strategy

First things first, you should be contented that buying a put is the opposite of buying a call. So in this kind of strategy, when you become bearish, that is the moment you may purchase a put option. Put option puts the trader in a situation where he can sell his stock at a particular period of time before the expiration date is reached. This strategy exposes the trader to a mere kind of risk in the options trading market.

## Bull Call Spread Strategy

In this kind of strategy, the investor gets to purchase several calls at a particular strike price and then purchases the price at a much higher price. The calls always bear a similar expiration date and come from the same underlying stock. This type of strategy is mostly implemented by the bullish options traders.

## Bear Put Strategy

This strategy involves a trader purchasing put options at a particular price amount and selling off at a lower price amount. These options bear a similar expiration date and from the same underlying stock. This strategy is mostly utilized by traders who are said to be bearish. The consequences are limited losses and limited gains.

## Iron Condor

The iron condor involves the bull call spread strategy and the bear put strategy all at the same time during a particular trading period. The expiration dates of the stock are still similar and are of the same underlying stock. Most traders get to use this strategy when the market is expected to experience low volatility rates and with the expectation of gaining a little amount of premium. Iron condor works in both up and down markets are really believed to be economical during the up and down markets.

## Married Put Strategy

On this end, the options trader purchase options at a particular amount of money and at the same time get to buy the same number of shares of the underlying stock. This kind of strategy is also known as the protective put. This is also a bearish kind of options trading strategy.

## Cash Covered Put Strategy

Here, one or more contracts are sold with a 100 shares multiplied with the strike price amount for every particular contract involved in the options trading. Most traders use this strategy to acquire an extra amount of premium on a specific stock they would wish to purchase.

## Long or Short Calendar Spread Strategy

This is a tricky type of strategy. The market stock is said to be stagnant, not moving and waiting for the right timing until the expiration of the front-month is reached.

## Synthetic Long Arbitrage Strategy

Most traders take advantage of this strategy when they are trying to take advantage of the different market prices in different kinds of markets with just the same property.

## Put Ratio Back Spread Strategy

This is a bearish type of options strategy where the trader gets to sell some put options and gets to purchase more options of just the same underlying stock with a similar expiration date and a lower price.

## Call Ratio Back Spread

In this strategy, the trader uses both the long and short options positions so as to eradicate consistent losses and target achieving large loads of benefits over a particular trading period. The essence of this strategy is to generate profits in case the stock prices tend to elevate and reduce the number of risks likely to be involved. This strategy is mostly implemented by bullish kind of options traders.

## Long Butterfly Strategy

This strategy involves three parts where one put option is purchased at particular and then selling the other two options at a price lower than the buying price and purchasing one put at even lower price during a particular trading period.

## Short Butterfly Strategy

In this strategy, three parts are still involved where a put option is sold at a

much higher price, and two puts are then purchased at a lower price than the purchase price, and a put option is sold at a much lower strike price. In both cases, all put bear the same expiration date and the strike prices usually are equidistant as revealed in various options trading charts. A short butterfly strategy is the opposite way of the long butterfly strategy.

## Long Straddle

The long straddle is also known as the buy strangle where a slight pull and a slight call are purchased during a particular period before the expiration date reaches. The importance of this strategy is that the trader bears a high chance of acquiring right amounts of profits during his or her trading time before the expiration date is achieved.

## Short Straddle

In this kind of strategy, the trader sells both the call and put options at a similar price and bearing the same expiration date. Traders practice this strategy with the hope of acquiring reasonable amounts of profits and experience limited various kinds of risks.

## Owning Positions That Are Already in a Portfolio

Most traders prefer purchasing and selling various options that already hedge existing positions. This kind of strategy method is believed to incur good profits and incur losses too in other occurrences.

## Albatross Trade Strategy

This kind of strategy aims at gaining some amounts of profits when the market is stagnant during specific options trading period or a pre-determined period of time. This kind of strategy is similar to the short gut strategy.

## Reverse Iron Condor Strategy

This kind of strategy focuses on benefiting some profits when the underlying stock in the current market dares to make some sharp market trade moves in either direction. Eventually, a limited amount of risks is experienced and a limited amount of profits during trading.

## Iron Butterfly Spread

Buying and holding four different options in the market at three different market prices is involved in the trading market for a particular trading

period.

## Short Bull Ratio Strategy

Short bull ratio strategy is used to benefit from the amounts of profits gained from increasing security involved in the trading market in a similar way in which we usually get to buy calls during a particular period.

## Bull Condor Spread

This is a type of strategy that is designed to return a profit if the actual price of security decides to rise to a predicted price range during a specific trading period impacting useful chunks of profits made to the options trader and a limited number of risks involved.

## Put Ratio Spread Strategy

This strategy entails purchasing a number of put options and adding more options with various strike prices and similar kind of underlying stock during a particular options trading period.

## Strap Straddle Strategy

Strap straddle strategy uses one put and two calls bearing a similar strike price and with an equal date of expiration and also containing the same underlying stock that is ordinarily stagnant during a particular trading period. The trader utilizes this type of strategy for the hope of getting higher amounts of profits as compared to the regular straddle strategy over a particular period of the trading period.

## Strap Strangle Strategy

This strategy is bullish, where more call options are purchased as compared to the put options and a bullish inclination is then depicted in various trading charts information.

## Put Back Spread Strategy

This back spread strategy combines both the short puts and long puts so as to establish a position where the ratio of losses and profits entirely depends on the ratio of their two puts that are likely to be experienced in the market.

## Short Call Ratio

This strategy involves purchasing a single call and selling two other calls at a

higher price amount during a specific period of time before its expiration. This concept combines the protocols of the bull call spread strategy and the naked call strategy. The essence of this strategy is to acquire limited loss potential and mixed profits potential to the options trader involved during a particular period of time.

## Bull Call Ladder Spread Strategy

This one is almost similar to the bull call strategy, where security increasing in price is expected to source out some profits to the trader.

CHAPTER 7:

# Different Types of Securities

There are numerous types of securities out there. In finance, we define security as a tradable financial asset. This means the financial asset can be traded, bought, or sold, at the financial markets.

Securities are crucial for the global financial system. They are financial instruments that are created to afford their owners a variety of options. This means anyone with a financial instrument can sell, purchase, hold, assume or relinquish ownership, and so much more.

There are specific securities that are traded more than others. Day traders generally prefer certain securities. These include stocks, currencies, and contracts for difference. Others are futures contrasts like commodity futures, currency futures, interest rate futures, and equity index futures, among others.

## Securities

Securities are financial instruments that are traded on exchanges around the globe. Some of these popular exchanges include the London Stock Exchange, New York Stock Exchange, and exchanges in cities such as Hong Kong, Tokyo, Paris, Sydney, among others.

Some securities such as bonds and other fixed-income assets are traded across the secondary markets. There are millions of individuals around the world who hold various securities, especially stocks, bonds, and others. Other entities include exchange-traded funds or ETFs and mutual funds.

Before security is made available to the public, it has to be vetted. Large firms and corporations that wish to list at the stock market to raise money for different purposes have to be assessed by the regulator. In the US this regulator is the SEC or securities exchange commission. The stock and bond markets are also referred to as capital markets. Companies that need to seek funds from the public list at the markets so that individuals and institutions purchase their stocks and then trade them back and forth whenever they want.

Large companies have to liaise with investment bankers and underwriters to help in the preparation of listing their securities at the markets. These securities could be bonds, stocks, and so on. The investment bankers will generally examine the company's financial position and the amount it intends to raise. It is based on this that the firm will likely recommend the number of shares or securities to be issued and how to approach the entire listing process.

Stocks and bonds are generally the most common and best-known types of financial securities available. They are also the most commonly traded securities together with a few others. However, they are not the only financial instruments traded at the capital markets. We also have options, derivatives, indexes, currencies, warrants, and debentures, and even US Treasury securities.

All these securities have a few things in common. They all carry a certain value that makes them admirable to both traders and investors. This is the reason why they are always trading in the markets. However, the risk profiles of these securities vary greatly. Different traders and investors have different risk appetites. This is why the choice of security to trade or invest in varies.

Take bonds and stocks, for instance. Stocks carry a higher risk level compared to bonds because of how they respond to market fluctuations and the general economic state. Bonds are a lot more stable even though the income they provide is considered fixed.

## Stocks

Stocks are by far the most popular form of the security sold and purchased by both traders and investors at the markets. There are different kinds of stocks, such as ordinary shares. These are sold to the public by the parent company through the stock market. Stocks from very successful companies that are profitable over the years are referred to as blue-chip stocks. We also have internal stocks as well as niche-specific stocks. Common stocks transacted regularly at exchanges are also known as equities. The reason why stocks are by far the most popular sort of security traded is that they have the highest return. Stocks on average have a return of 9.2%. In comparison, bonds have seen a return of about 6.5% within the same 50-year period.

## Bonds

Another popular security that is common among day traders is the bond. Bonds are ideally a form of investment where investors put their money in debt, either public or private. Therefore, bonds are largely considered to be instruments of debt.

Bonds are also known as debt securities, so a trader who deals in bonds is purchasing a debt instrument. Compare this to traders who deal in stocks which are essentially units of ownership of a listed company.

Companies or organizations that issue bonds often do so to raise money for a certain financial obligation. For instance, governments may issue a bond to expand or improve the local infrastructure. At the same time, companies do so to expand into new markets or sometimes even to come up with a new product line and similar ventures.

Banks also issue instruments similar to bonds. These are known as certificates of deposit. Banks issue these to receive funds they need most to lend to their customers. Investors or buyers of certificates of deposit often received a certain fixed rate of interest for their investment. Certificates of deposit are short-term investment tools used by banks to raise revenue for their operations.

## Options and Derivatives

Another common type of security is a derivative. Derivatives are financial securities whose value is directly related to an underlying security. This means the price is derived from the price of the underlying asset and hence the term derivative.

A good example of derivatives is an options contract. Equity options contracts are contracts between a buyer and a seller regarding an underlying asset. The asset is most cases are most often stocks. Not many retail traders deal in options, but numerous professional traders trade in options regularly. Others include investment firms, commercial and investment banks, hedge funds, and other companies that need to balance their portfolios and so on.

At the most basic level, equity options simply contract that award buyers a right to sell or purchase underlying stocks at a certain price and within a certain period. It is important to note that this is a right but not an obligation. The seller, on the other hand, is obligated to sell should the buyer exercise their right. Beginner and novice traders should generally stay as far away

from derivatives as possible because they are extremely risky.

## Currencies

Trade-in currencies are sometimes referred to as Forex or foreign exchange. It involves the purchase and sale of currencies at an exchange. The main aim of currency trading is to make a profit. The gist behind currency trading is the fact that currency prices are always fluctuating and based on these fluctuations, traders can capitalize and earn a profit.

There is a reason why some day traders prefer trading currencies. One reason is that the currency market is the largest in the entire world. This market has a turnover of $2 trillion each single day. This is massive even when compared to other large securities markets such as NYSE.

CHAPTER 8:

# Technical Analysis

When it comes to ensuring that your successful trade percentage only increases as time goes on, you may find it useful to branch out of analyzing the fundamentals of a company to determine if its stock is worth considering and also to analyze it technically. Technical analysis studies the past market trends to accurately predict those that are likely to occur again in the future. Technical analysis is ideal for determining future performance by looking at previous prices without having to dig through mountains of paperwork to find the details you are looking for. While the past will never be able to predict the future 100 percent of the time truly, technical analysis is useful when combined with a basic understanding of market mentality for generating predictions that are accurate within reason.

## Core assumptions

The goal of technical analysis is not to measure the given intrinsic value of a particular currency, but rather to use the tools at your disposal to pick out beneficial patterns related to a future activity that others may not yet have noticed. At its core, technical analysis functions by assuming three things to be true. First, the market will always discount anything; second, prices will always move according to trends; and finally, history will always repeat itself eventually.

## The market will always discount everything

Detractors say that technical analysis is only concerned with the movement of currency price and little else in reality. Technical analysis assumes that the current price of a currency reflects everything that is going on that could affect that currency, which then makes it an accurate way to assess overall value. This is taken into account along with the broader economic climate as well as the current phase to determine when a valuable opportunity comes along.

## The price will always move according to trends

If the current value or price of a given currency is said to move according to

an established trend, you can determine a trend in past currency performance. You have a much greater chance of seeing that same trend repeat itself when compared to the chances of an entirely new trend, or the opposite trend occurring instead. Technical trading strategies tend to assume that this is always the case if they are going to work effectively.

**History will repeat itself eventually**

If prices move in trends, then it naturally stands to reason that technical analysis believes that as far as currency prices go, history will always repeat itself. This can be chalked up to the fact that those who participate in the market are likely always to respond the same way to similar market movement. This is often plotted using chart patterns to determine these trends at their start when they can be capitalized on to the fullest. While some of these charts have been in use for over a century, they are still relevant when it comes to how the public reacts to price changes.

**Price charts**

A price chart is a core part of technical analysis; essentially, it is a chart with both an x and a y-axis where the price can be seen along the vertical axis. The time can be seen along the horizontal axis. While there are plenty of different charts to choose from, each with their unique strengths and weaknesses, you will want to keep in mind early on, including the line chart, the candlestick chart, the bar chart, and the point and click the chart.

**Line chart**

The line chart is the simplest of all the charts because all it does is showing the closing price of a given stock over a set period. In this case, the lines are formed once the grouping of closing prices has been determined and then connected with the end goal of showing a trend. You won’t be able to find details such as what the opening price for the same period was or what the overall results for the day were. However, you will be able to determine if the day over day is positive, which is still quite important, which is why this is one of the first charts that day traders of all skill levels consult when they are looking into the details of new stock.

**Candlestick chart**

Another worthwhile technical analysis tool that you want to be familiar with is the candlestick. They provide important data for traders across multiple

time frames by creating what is known as price bars. Each day will provide you with details regarding the high, open, close, and low stock points each day. These details can be used to build patterns that make it easier to predict how the price is likely going to move in the future.

The candlesticks that are going to be the most accurate when it comes to plotting the price of stocks are going to fall into two types, continuations and reversals. Reversal candlestick patterns tend to predict a coming change in the current pricing trends. Meanwhile, continuation patterns predict that the current price action is simply going to continue as is.

A candlestick chart is similar to a bar chart, though the information it provides is much more detailed overall. Like a bar chart, it includes a line to indicate the range for the day. However, when you are looking at a candlestick chart, you will notice a wide bar near the vertical line, which indicates the degree of a difference the price saw throughout the day. If the price that the stock is trading at increases overall for the day, then the candlestick will often be clear, while if the price has decreased, then the candlestick is going to be red.

**Point and figure chart**

While the point and figure chart aren’t used as much as it once was, it has been in use for more than 100 years, which means there is still plenty of use left in it. The point and figure chart are useful when you want to know the movement of prices, without worrying about volume or time spent. This makes it a pure pricing indicator without much of the noise that many other charts need to deal with. It is also useful if the other types of charts contain information that skews them in one way or another.

When you first see a point and figure chart, you will always be able to tell because it comprises lines of Xs and Os instead of points and lines. In this instance, the Xs will indicate periods of positive trends, while Os will represent downward trends. The numbers and letters along the bottom of the chart indicate months and date estimates. Point and click charts also include a set of reversal criteria set by the trader looking at the chart, these criteria consider the amount the price is going to move for an X to become an O or vice a versa. As the trend changes, it shifts right to indicate this fact.

**Support and resistance**

Understanding support and resistance is crucial to achieving the success you are looking for when it comes to technical analysis. While they may seem complex at first, they will become clearer every time you put the theory around them into practice. At their most basic, resistance can be thought of as the ceiling on the price of a particular currency or currency pair, which means the price is unlikely to move past this point. In contrast, support can be thought of as the price floor, which is unlikely to decrease further.

**Trend lines**

While it is not uncommon for these ceilings and floors to change regularly, being prepared for these changes is what separates the novice traders from the experts. Understanding these movements is done through the use of trend lines. When the market is trending upward, new resistance levels will be formed as that upward price movement begins to slow before starting its trek back down the trendline. This is likely to happen when uncertainty rises with a given stock. This will, in turn, create what is known as a short-term top, which is essentially a temporary price plateau in the overall movement pattern.

Shorter trends can be part of trends that are much longer overall, which is why it is important always to double-check and ensure you aren't making a move on something that is only an offshoot of a much larger, and much different trend. To decide what's even easier, it is important to always keep an eye on the weekly, daily, and yearly charts if you want to locate any truly long-term trends. If you are looking to get rich quick, you will want to stick to the daily charts instead.

After you have found an especially interesting trend, draw a straight line that correctly illustrates the direction the trend is currently moving in. When it comes to an uptrend, you will want to draw your line in such a way that it connects the dots of all of the lows in such a way that the line is below the relevant data. If you are looking at a reversal trend, you will want to draw the line so that it connects the highs, leaving the data below the trendline.

It is important to start paying extremely close attention to the price of the stock that you are watching when it begins to reach again the point where the trendline begins to broaden as this is likely to be the point where the price is going to cease its downward fall. It is important to note in instances such as this that a trendline can lend support to a given stock for a significant period

while changing very little in the interim. Likewise, if the market is in a downward trend overall, then you will want to be on the lookout for a set of peaks at a declining angle and a trendline that connects the point of each peak. As the price gets closer to the trendline, you will want to be on the lookout for indicators that point towards selling, as this is how the price was likely pushed lower previously.

You will also want to keep an eye out for channel lines, a pair of lines to the side of the data you are watching that indicate the levels of resistance and support in play. One trendline connects the highs while the other connects the lows. At the same time, the resulting channel can either go up or down, or even sideways, but the interpretation will always remain constant. The goal should be to establish a long enough channel to show a break from the data that it has been following. This breakout point will mark the best time to get in on the trend you are following to ensure that you have the maximum amount of time to profit from the trend you have discovered.

**CHAPTER 9:**

# Understanding Futures

What happens when you buy futures is one of the most frequent questions about futures trading. When you buy futures, you are accepting to purchase products or service the company from which you bought futures has not produced yet. In comparison to stock trading, futures trading is much riskier because you deal with products and services that are not yet produced. With such characteristics, future trading is very popular among the producing companies and individuals and customers and speculators.

While stocks or shares are being traded on stock markets, futures are being traded on futures markets. The idea of future markets developed from the needs of agricultural producers in the mid-nineteenth century, where often happened that the demand was much bigger than supply.

The difference between the futures markets and futures markets today is that today's futures markets have crossed the borders of agricultural production and entered many other sectors, such as financial. As such, future markets today are used to buy and sell currencies and other financial instruments. What future markets made possible is the opportunity for a farmer to participate in the goods with customers on the other end of the world. One of the biggest and most important future markets is the International Monetary Market (IMM) established in 1972.

Futures are financial derivatives that obtain their value from the movement in the price of another asset. It means that the futures price is not dependent on its inherent value. Still, on the amount of the asset, the futures contract is tracking.

One of the advantages of the futures market is that it is centralized and that people from around the world electronically can make future contracts. These future contracts will specify the price of the merchandise and the time of delivery. Every future contract contains information about the quality and the quantity of the sold goods, specific prices, and the method in which the goods are to be delivered to the buyers.

A person who buys or sells a futures contract does not pay for the whole

value of the contract. He pays a small upfront fee to trigger an open position. For example, if the futures contract's value is $350,000 when the S&P 500 is 1400, he only pays $21,875 as its initial margin. The exchange sets this margin and may change anytime.

If the S&P 500 moved up to 1500, the futures contract would be worth $375,000. Thus, the person will earn $25,000 in profit. However, if the index fell to 1390 from its original 1400, he will lose $2,500 because the futures contract will now be worth $347,500. This $2,500 is not a realized loss yet. The broker will also not require the individual to add more cash to his trading account.

However, if the index fell to 1300, the futures contract will be worth $325,000. The individual loses $50,000. The broker will require him to add more money to his trading account because his initial margin of $21,875 is no longer enough to cover his losses.

## Futures Market Categories

There are similarities in all futures contracts. However, each contract may track different assets. As such, it is essential to study the various markets that exist.

| Categories of Futures Markets | | | | |
|---|---|---|---|---|
| *Agriculture* | Grains | Livestock | Dairy | Forest |
| *Energy* | Crude Oil | Heating oil | Natural gas | Coal |
| *Stock Index* | S&P 500 | Nasdaq 100 | Nikkei 225 | E-mini S&P 500 |
| *Foreign Currency* | Euro/USD | GBP/USD | Yen/USD | Euro/Yen |
| *Interest Rates* | Treasuries | Money markets | Interest Rate Swaps | Barclays Aggregate Index |
| *Metals* | Gold | Silver | Platinum | Base Metals |

You can trade futures contracts on different categories and assets. However, if you are still a new trader, it is important to trade assets that you know. For

example, if you are into stock trading for a few years already, you must start with futures contracts using stock indexes. This way, you won't have a hard time understanding the underlying asset. You only need to understand how the futures market works.

After choosing a category, decide on the asset that you want to trade. For example, you want to trade futures contracts in the energy category. Focus on coal, natural gas, crude oil, or heating oil. The markets trade at various levels, so you must understand relevant things, likes the nuances, liquidity, margin requirements, contract sizes, and volatility. Do the necessary research before trading in futures contracts.

## Types of Trade

A basis trade allows you to go long or short on a futures contract and go short or long on the cash market. It is a wager that the difference in price between the two markets will fluctuate. For example, you decide to buy 10-year US Treasury bond futures then sell a physical 10-year US Treasury bond.

A spread trade allows you to go short and long on two futures contracts. It is a wager that the difference in price between the futures contracts will change. For example, you buy an S&P 500 futures contract for August delivery and sell an S&P 500 futures contract for November delivery.

A hedging trade allows you to sell a futures contract to offset a position you hold in the current market. For example, a stock trader does not want to sell his shares for tax reasons. However, he is fearful of a sharp decline in the stock market, so he sells S&P 500 futures contract as a hedge.

An important issue that must be mentioned regarding futures and futures contracts is the notion of prices and the limits of future contracts. In future contracts, prices are expressed in classical currencies such as US dollars. Prices in the aspect of future contracts also have a minimum amount of money for which the product's price may go up or go down. This minimum in the context of futures contracts is referred to as "ticks."

These tricks are very important for an investor who is investing huge sums of money or is buying a huge number of products because the fluctuation of prices can have an enormous influence on the amount of money spent on certain products. It must also be noted that these "ticks" are not the same for each. Every commodity in the trading of futures has its own "ticks," the

minimum for price fluctuation, and it depends on the type of commodity.

**CHAPTER 10:**

# Portfolio Rebalancing and Management

A technique that helps reduce risk by distributing it among different financial instruments is referred to as diversification. This helps in maximizing returns by investing in different areas that would, in turn, react in different ways to the same event. Diversification helps in reducing the risk of a loss, but it doesn't prevent a loss.

There are two main types of risks that you will need to watch out for a while investing. The first one is known as undiversifiable risk. This is also referred to as systematic risk, and it is associated with every company. The various causes of this are inflation, exchange rates, political stability, and rates of interest. This isn't peculiar to one type of company or industry, and it cannot be eliminated or even reduced through diversification. Investors will need to accept it and put up with it.

The other risk is referred to as diversifiable risk. This is also referred to as unsystematic risk, and it is certainly specific to a particular company, market, or economy. Business and financial risks are the most common sources of this kind of risk. The aim is to invest in different assets so that they won't all be affected in the same manner.

For instance, let us say that you have a portfolio that consists of solely airline stocks. If it is announced that all pilots are going on a strike and the flights will be canceled, then the value of your investments will drop. However, had you diversified your portfolio and invested in some railway stocks as well. Only a part of your portfolio would have suffered. There is a chance that the prices of your railway stock would have increased as the airline stock prices decreased. You could diversify your portfolio further since there are risks that affect aviation and railway industries.

To achieve better diversification, you could diversify not only into different types of companies but also in different kinds of industries. Let your stocks be uncorrelated. It is also important that you start diversifying among the different classes of assets. Different assets react to the same situation in different ways. Stocks wouldn't react the way bonds would, and vice versa. A

combination of assets will help spread the risk and reduce the portfolio's sensitivity towards unfavorable market conditions.

The markets of bonds and equities tend to move in different directions. Thus, a diversified portfolio will help in setting off the loss from one unpleasant market movement against a favorable one. Even the best analysis of the company's financial statements doesn't guarantee that the investment wouldn't be a losing one. Diversification won't prevent the loss. However, it can help reduce the impact of the loss and reduce the risk borne by you.

The next question would be regarding the number of stocks that you should hold. Owning five stocks would certainly be better than holding on to one. However, there comes the point, after which it doesn't make any sense to keep on adding more stock to your portfolio.

There is a debate about the number of stocks that you will need to reduce the risk while maintaining a good return. The most conventional school of thought suggests owning between 15 and 20 stocks spread across various industries. Diversification can help an investor in managing the risk and in reducing the volatility of an instrument. The caveat that needs to be remembered is that regardless of how diversified your portfolio is, you can never eliminate the risk. All you can do is to try and reduce the risk that is associated with different individual stocks.

However, the general market conditions tend to have an impact on all the stocks available. Therefore, it is important to diversify into different classes of assets as well. The key is to find the perfect balance between the risk and returns expected while keeping in mind your financial goals.

## Building the Perfect Portfolio

Compared to individual stock picking, a well-balanced portfolio would certainly have a better long-term impact on overall performance. Picking stocks is fun compared to thinking about asset allocation and the percentage of stocks that you should hold. There are a couple of rules that you should follow so that building your portfolio won't be difficult. Here are the rules that you should take into consideration:

### Your Goals

Knowing your goals will help you get started – when you will need the money, the amount, and how soon you need it. When you start saving for a

long-term goal, time can help in smoothening over the returns from any volatile instrument. When you are holding on to more volatile assets, a long-term perspective helps.

Volatility refers to any ups and downs in the market price of an asset. However, a volatile investment wouldn't work in your favor while you are saving for a short-term purpose. The chances of such an investment plummeting are quite high. If you are living off a fixed income, you should be watchful of the damage inflation can do. Having diversified investments helps in reducing the blow of inflation.

**Take your risk Tolerance into Consideration**

All sorts of investments have got some risk involved. Even those that seem "safe," like treasury bonds and blue-chip stocks, tend to have some risk involved. If you need some money for a short-term goal and cannot afford to lose any money, then the best option available to you would be a product insured by FDIC, like a savings account or a CD (Certificate of Deposit). The riskier the asset tends to be, the higher the returns are. The high risk involved makes these investments extremely volatile. You will need to decide on the proportion you would like to hold your investments and the ratio of risky investments to less risky investments. You get to determine this ratio, depending on your goals and needs.

There are more than just stocks and bonds. You can invest in more than one type of asset. One way in which you can reduce volatility is by doing this. You need to add some alternative assets, such as commodities or even real estate, to your portfolio. Commodities can help counteract the effects of inflation. This happens because the prices of commodities tend to shoot up during inflation.

If you are averse to taking any risks, then you should seriously consider investing in a fund that is market neutral – something that would aim at making a profit regardless of whether the market is bullish or bearish. Even if your investments, like houses, precious artifacts, and other valuables, haven't been updated in the quarterly brokerage statement, you should know the value of your investment portfolio. Even if such items aren't sold off easily, their value and associated risks need to be considered before you think of expanding your portfolio.

There are a couple of things that you shouldn't do while putting together your

investment portfolio. Most investors tend to make several mistakes. Your investment shouldn’t be based on a fad. If you start investing based on a trend, likely, it will not head in the right direction. It is more than likely that the investment had already produced good results before you got to know about it. The “set it and forget it” mentality will cost you in investing.

You will have to keep reviewing your portfolio regularly. You will need to continue diversifying and change your pattern of asset allocation for risk mitigation. It takes a long time to make up for any setback that your portfolio might have encountered, so be thorough in your research before you decide to invest.

CHAPTER 11:

# Disciplined Approaches to Investing

In a market where every minute sees a fluctuation and every fluctuation can potentially make you a profit, you should keep yourself in the loop at all times and know exactly what you are doing on a daily and weekly basis.

## Buy the Dips

Your first strategy is to always buy on a dip. Do not buy into an already established rally. If you stop and watch the market for the first time, you will note that the market always charges forward, then re-traces, and then charges forward again. It is the nature of all financial markets especially the currency markets, and more so, the cryptocurrency market.

If you buy at the moment you see the ascent, then you are in for heartache when it takes a dip, and it could demoralize you. So wait for the dip and when it dips buy it on the dip after it turns to rally again. That way, once it turns around, you have a longer stretch to run with. Let the dips be the indicator for you to pull the trigger.

The same goes for when you short, wait for the dip. In this case, what the dip in the descent means is that it backs off on the way down for a minute and that's when you catch it. When it crested and started coming back, is when it was liquidated. The thing to note is never to try to catch it at its peak. You may get lucky once in a while. You may get in at rock bottom and get out at the apex, but that is not going to be the way all the time and not what you should expect. Both apex and pit have a specific purpose, and that purpose is not for you to harvest or liquidate, but to prepare for the next move. Those are your trigger points.

## On Balance Volume

The other strategy that you want to get familiar with is to understand that the majority of BTC are traded on a day-to-day basis. You want to be able to understand where the big money and smart money are going and follow that. To do that, what you want to do is look at the flow of money, and the OBV indicator does exactly that.

The OBV indicator can be found in some of the better brokerages that offer MT4 platforms. This is what you want. The thing that you don't want to do is trade blind and manually. You want to be able to program as much of the trades as possible with sufficient downside risk mitigated, and sufficient upside potential capitalized. In the OBV indicator, it shows you the amount of money flowing into a particular counter. In the case of BTC, if you see that the coin is trending up while your OBV indicator is trending down, then it means that the money is coming out of the market and the rally isn't sustainable. You can use this as a guide to get ready to short the market or liquidate a long position that you took earlier in the cycle.

On the other hand, if the price of the coin is descending but the OBV indicator starts turning up, then you are looking to make a buy sometime soon because the money is starting to flow into the counter.

## Arbitrage

The one strategy that you should follow when you are new to the game is that of arbitrage. If you are not doing cross-currency arbitrage, you are leaving money on the table and you will have no excuse because we told you so right here!

Here is how you look at arbitrage:

You have to know that the markets are all connected and that you need to keep an eye on that connection.

The way you set this up is to have your program monitor the three or four currencies that you are trading, and also look at the cross-currency quotes. So imagine we have Currency A, Currency B, C and D. Currency A is the base currency and quoted against the dollar, and B, C and D are also quoted against the dollar.

For now, let's say that Currency A is quoted as 1:1 against the dollar — that means you get one unit of A for every dollar. Then you have Currency B trading at $2, Currency C trading at $3 and Currency D trading at $4.

Let's just take two currencies at this point to make the example simple. If Currency A is trading at par with the dollar, then it should also be trading at units against Currency B. But if you watch the market closely, every few hours you will get a scenario where Currency A and B, instead of being 1:2, will be at 1:1.9. Assuming that the base currencies of Currency A and the

dollar and Currency B and the dollar are still on par and 1:2 respectively, there is a price mismatch between A and B.

This is an opportunity for you to buy up B using A, and then using A to buy the dollar. That will yield you an immediate 0.1 profit. There is almost zero market risk in that as long as you get the prices that are displayed on the screen. The only way to effectively do this is for you to have the program that you are running constantly check the pricing feed for these discrepancies which happen more than you realize. You must take advantage of them each time.

The cryptocurrency arbitrage market is a valuable one. You make a profit doing it while keeping the market balanced. It is an almost risk-free endeavor and it is one that is easy to program. The more currency pairs that you do this for, the more opportunities you will get in the mismatched pricing. You should have your trading program do this for all the counters that you can even the ones that you are not familiar with because this trade is not about the understanding of the nature of the currency, but rather takes advantage of the mispricing of any market.

There are a total of 11 cryptocurrencies (BTC plus 10) plus the USD that you should set your system up for. Then you keep an eye out for anything that starts to trade heavily and have an impact on the market. It is still early days in the cryptocurrency world, and you can stand to make gains if you just do nothing but set your program to look for pricing mismatches and arbitrage opportunities.

## OBV Mismatch

Trading on an OBV mismatch is a trade of the second order in the sense that you are no longer just looking at the price of things to determine a trade. You are looking at the effect of the activity around it that is measured by the OBV. When you see there is a mismatch between two counters, then you look at the price that they are trading at and see if the price of the underlying asset is converging or diverging. If it is converging, then you are setting yourself up for a sell order. If it’s diverging, then you are setting yourself up for a buy order. This is one of the indicators that you can use after you get a handle on how to trade multiple currencies at once.

These strategies will help you get started with the cryptocurrency trading that

should make it fun and interesting. Trading cryptocurrencies is about speed, agility and having the nerve to watch the fluctuations in the price and take advantage of it whenever possible. It is a highly opportunistic market and that is the mindset that you should bring to the table. This is not the best market for you to be relaxed with. If you bring your high-energy game to the table, you will be rewarded.

## Mindset

Your mindset is the critical element that controls whether you are successful in this endeavor or you end up losing. The folks I see lose money in the market are typically from two categories. The first are the ones who do not bother to read up, and only slowly start to understand what the market is and what it is all about. You are not in that category; after all, you are reading this to enhance your knowledge. So that's a brilliant start. But there is a long way to go.

The second category of folks is the ones who are not able to stomach the constant gyrations and fluctuations of the market. This is indeed not a slow market and things can turn around in a moment. The first kind panic and liquidate. The second kind freeze and watch their holdings erode. And then there is the third kind that sees the change in direction as a potential for profit and as an opportunity.

Be sure to understand that there are some trades in which you will have to cut your losses. Further, when you cut your losses, you have to effectively and efficiently move on to the next one without worrying too much over spilt milk.

**CHAPTER 12:**

# Building Up Your Watch List

Before beginning your trading, you must outline your strategy for entering trades. This will help to eliminate emotional trading and making decisions on impulse. One of the most important elements of your trading plan will be how you will manage your money effectively, keeping you in the market. So that will be our first step.

## Establish Your Money Management Rules

There are many "winning strategies" that you could develop to enter into trades. Still, if the risk is too heavy for your financial situation, the strategy will be useless.

Begin by stating how much capital you have to trade. A good rule of thumb is that no more than 1% of capital should be risked on a single trade. As time passes and you can see that your strategy is proving successful, you could raise this max to 2%. This rule will supersede any entry and exit rules because if the risk exceeds your 1% maximum, you cannot enter the trade. As your capital grows, the dollar amount will increase, since 1% of $40,000 is more than 1% of $25,000. As your capital continues to grow, you may want to reevaluate this risk level, because perhaps you will not want to risk 1% of $1,000,000 ($10,000) and prefer to limit yourself to a set dollar risk on a single trade (like $2000).

During this portion of your plan, you will also want to establish your stop loss. This will limit your potential loss if a trade turns south. For example, if you purchase a stock at $30 and you have set a 25% stop, you would exit the trade when the stock hits $22.50. You could also initiate a trailing stop, which would adjust as the value of the stock rises. If that $30 stock rose to $60, your stop would adjust itself to stop if that stock drops to $45 instead of the original $22.50 point.

Neglecting to establish a stop loss is another common error made by new traders. The fear of exiting a trade because of a temporary market fluctuation makes some traders opt not to use a stop. However, if you understand the

behaviors of the stocks you are trading, you can easily set a stop that will allow for typical fluctuation but stop the trade when a loss is outside of the normal movements.

Now that you have established how much you can put into a single trade and have created your risk management rules, it is time to determine how and when you will enter into a trade.

## Entry and Exit Rules

Your entry rules will thoroughly outline what situation needs to exist for you to enter into a position. This could include price movements, chart patterns, statistics, indicators or any other variable that you feel indicates a winning position. You will want to determine which chart time frames you will monitor, what overall market conditions should (or shouldn't) be present. Will you enter a position based on an indicator, or will you wait for the actual price movement?

Your exit rules will do the same, outline the conditions that will cause you to exit a position. This could mean seeing a reversal of the signals that triggered your entry, price movements, chart patterns or other indicators. Decide which chart time frame your exits will be based on.

Keep your entry and exit rules simple and to the point. During the heat of the trade, you want these rules to be things you can remember and implement quickly. Be specific and thoughtful, but very concise.

During this portion of your plan, you will also want to indicate which period of the day you will do your trading. It is advisable to limit your daily trading activity to the same time each day, as market activity changes throughout the day. Maybe you will only enter trades between 9:30 and 10:15, will always exit by noon and will simply monitor activity during other portions of the day.

## Identify the Stocks to Trade

you should also include in your trading plan how you will identify the stocks that you will trade. As a day trader, you will want to focus on market movers.

### Limit Up/Limit Down

This is not included in every trading plan, but definitely should be. The idea of limit up/limit down is to more or less create a stop loss for your trading

day rather than just a single trade. How big of a loss is going to have you walk away for the day? Conversely, how big of a profit allows you to take the rest of the day off?

You may decide that your limit down will be 2% of your capital. If, at any point during the trading day, you go down 2% capital, it's time to walk away. While it may seem counterintuitive, this will help you avoid engaging in vengeance trading – the habit of going after a trade that may not satisfy all of your rules simply because you're hoping to make up for a loss. Rather than letting emotions get involved in your business, determine to quit for the day and start again tomorrow.

Consider your limit up in the same terms. Let's say you've increased your capital by 7% today. Nice job! Now walk away. That successful feeling could lead you to make greedy decisions, trying to turn 7% into 9% or 10%. Don't risk undoing what you've done by letting emotions interfere! Congratulate yourself on a job well done and take the rest of the day off!

## Performance Metrics

The last part of your trading plan should outline how you will measure your performance. Which metrics will you use to evaluate your strategy and how often will you assess your trades? A fair strategy could be to say you will evaluate your results after every 10 trades. That could mean you analyze your results every 3-4 days, or maybe it will be once per week, depending on how frequently you enter trades.

There are several different metrics that you can use to measure the success of your trading strategy.

One is to assess your win to loss ratio simply. If you entered into 10 trades, and 7 of them were winning your win to loss ratio would be 7:3.

You may want to go a little deeper and assess your profit/loss to ensure that your wins out value your losses. If you assessed the same 10 trades and the average winning trade was $400 and your average losing trade was $200, then your profit/loss ratio would be 2:1. Many insiders advocate maintaining at least a 2:1 ratio to stay ahead.

You could also consider evaluating your maximum drawdown. This is what is typically thought of as the trough between two peaks. Still, you don't necessarily have to wait for the next peak to identify your max drawdown. If

you are evaluating your trades based on a 10 trade cycle, identify the lowest point of your account during that cycle. If your portfolio began with $100k value and dropped to $80k, your max drawdown is $20k. While there isn’t a hardnosed rule on what is an acceptable maximum drawdown, overtime you should aim to reduce your drawdowns to maintain a balanced portfolio.

CHAPTER 13:

# Psychologically Approach toward Success

It may not seem to be a significant factor on the surface. However, psychology plays a huge role in the way investors conduct their trades.

Psychology is arguable the most important aspect when investing. The fact of the matter is that for all of the analysis and research that you can conduct, you may find yourself falling victim to some of the most common issues that occur traders. When an investor can control their emotional responses to the way trades are conducted, there is a greater possibility of success.

## The Need for Realistic Expectations

The most important factor you can put into practice when it comes to devising your investment approach is realistic expectations. This means that you are aware of the fact that investing takes time and effort. Of course, you're not expecting to take years before making a profit. However, you should keep in mind that starting small can ultimately pay off in droves later on.

When you start small, you can build momentum. When you build momentum, there is a snowball effect that makes you make more money. Sure, it's tempting to think that you could make a year's salary when in a single trade. Still, then again, you will eventually reach that level after gaining the experience that top traders have gained.

It's like pilots; as they accumulate flight hours, they can fly without instrumentation, relying on their experience and better judgment. Now, that doesn't mean that the pilot no longer needs the plane's instrumentation. It just means that they can use their judgment, especially when unexpected circumstances arise.

Also, having realistic expectations is vital to ensure that greed doesn't get the better of you. You see, greed is a very powerful force, particularly when you are good at investing. There is a temptation to take greater and greater risks. Eventually, though, you make one mistake that can derail a long time's worth of success. So, having realistic expectations is a great way of curbing the temptation to take unnecessary risks.

## The Importance of Exercising Patience

In the world of investing, patience is the greatest virtue you can exercise. Most folks who venture into the world of investing in financial markets are hopeful they can make a good amount of money quickly. However, like anything in life, it takes time before you can become good at it.

This is why professional investors always preach patience.

If you go to your local bank right now and talk to an investment advisor, they will tell you to be patient, especially if it is going through a rough patch. They will tell you that you can make good returns, but you need to stay in the market long enough to see the results. They may even show you calculations of how your money compounds over time, thus giving you fabulous returns after 10 or 20 years.

Now, you surely don't have 20 years to make money at the moment. Well, it might be a good secondary investment, but certainly not something that you'd be betting on. Nevertheless, being patient is essential to making money in any type of investment.

You are only risking a small portion of your overall investment. This means that you can start small, but due to the power of compounding, you can make a serious amount of money.

This strategy has been successful for plenty of investors. But it takes time and study before you can make this strategy work. You need to keep in mind that rolling over money like this requires you to go on a winning streak. Therefore, you must have the right tools and information before making it big.

## Implementing an Organized Approach

Your trading approach needs to be systematic. Otherwise, you'll end up placing trades haphazardly. This will only cause you to make mistakes and lose out on potentially big gains. This is why becoming familiar with technical analysis, and fundamental analysis is essential. It's important to note that you need to keep a level head as much as possible. This will enable you to make trades so that you won't waste your time and effort.

But being organized implies so much more. For instance, you need to stick to a proper schedule and adhere to the guidelines we have set up in money

management. As you create discipline in your investing, you can give yourself the structure you need to be successful. Otherwise, you'll only find yourself guessing at what might happen.

Another integral part of an organized approach lies in getting to know the patterns of markets. This is important insofar as having a clear understanding of how markets can allow you to make the most of the current economic, political, and social situations.

Consider this situation.

A major oil-producing country has taken a serious hit to their economy as oil prices have plunged on the international market. This means that their currency is set to dive. You could potentially take advantage of that dive by buying up some of the currency at a low price. Then, when it rebounds, you can sell it for a profit. Often, shifts in the marketplace happen very quickly. Such fluctuations can lead you to make pennies on an individual deal. But when you compound them, they can make a significant profit.

This example requires you to be methodical in your study of economics and politics. After all, it's hard to get the full picture without having all of the relevant information at your disposal. Moreover, if you don't pay attention to the way events are unfolding in the world around you, you can miss the boat on significant trading opportunities.

Lastly, an organized trading approach will allow you to keep your emotions in check. Once again, this is a fundamental issue to keep in mind. If you cannot keep your emotions in check, they will eventually get the better of you. And while we have touched on greed and anger, it's also important to learn how to manage fear. When there are negative economic conditions, investors tend to panic. When everyone around you is panicking, it is the time when you can keep your cool and make some serious money. By being able to see opportunities where others are panicking, you can seriously make money. But the only way you can seize an opportunity of this nature is to be systematic and organized in the way you approach investing. Otherwise, you, too, will become prey to the fear and panic of other investors.

## Defining Your Trading Edge

Just like any business or company, you need to define what your edge is. This edge could be a keen understanding of a particular region of the world. In

such cases, you might have a slight edge since you understand the dynamics of a particular currency. This can help you better understand how you can place a trade taking into account factors that other investors may not necessarily be aware of.

When you go about defining your trading edge, it's all about what makes you a successful investor. As mentioned earlier, it could be that you have specific knowledge about a country or region that provides you with incredible insight into the movements of that currency.

Also, you might have the opportunity to dedicate time to research. In such cases, you can become highly successful as you can put in the hours needed to conduct the research needed to gain a foothold on your investment strategy. This is important to note as not all investors have abundant time at their disposal. You might have a financial brain that can help you figure out the numerical side of investing.

For other investors, their experience is a great boost. This experience may be focused on banking, economics, history, or a genuine interest in financial matters. This can be a great advantage to you as you won't have to spend as much time figuring out how markets work. Of course, you may still need to do some legwork though it won't be nearly as much.

That shouldn't hold you back. If anything, your advantage can be a diligent and careful study of markets. It could be patience or even a level head. Your biggest edge might be that you are willing to risk entering markets when things are rough.

Ultimately, your trading edge will emerge as you begin to study the market and see what it's all about. Many times, you won't define your identity until you have gotten some flight hours under your belt. It could be that you gain a better understanding of Asian markets. Perhaps you feel more comfortable with Latin American currencies. Or, you might decide to specialize in only two or three currency pairs. What you choose to do will be reflected in the way you approach your investments.

For most investors, they try various types of deals early on. Then, as they gain a deeper understanding and knowledge of markets, will gradually specialize in a certain type of currency or currency pairs. Some investors make a living out of a single currency pair.

This could be you. But you need to start somewhere. You can’t expect to make lots of money without having to define what your approach will be. It doesn’t take a Ph.D. or 20 years of experience in financial markets. It takes a careful understanding of the conditions in the market and how you can make the most of those conditions to your advantage. Often, investors are surprised to find they can understand the dynamics of some markets better than others.

Still, developing that intuitive feel comes when you are willing to keep an open mind. This is one of the best traits to assume. Having an open mind will always keep you receptive to the opportunities that the markets have for you.

CHAPTER 14:

# Economic Factors Influencing Investment Prospects

A wide array of factors influences any financial market. On the stock market, company news can drive an individual stock to new heights or make it since to new lows. A good jobs report can send the S & P 500 soaring, which means that most companies will see their stock rising. A trade deal gone badly can throw things in the other direction.

What influences the Forex market? Many things can drive prices one way or another. Anything from a trade war to a shooting war to simple supply and demand can help drive action on the Forex market. Centre individual traders drive prices up and down with desires to make money and fear losing it all. Let’s have a look at all the players on the market that influence Forex.

## Market Makers

A lot of Forex trading still goes on between banks. In the business, it is known as the interbank Forex market. It’s done by computer now, but this is the same kind of trading that went on between the banks before the advent of the retail trading market created by the F.X. dealers. Market makers influence the Forex markets through interbank trading.

Every bank has a market maker. They have a market maker for all the majors. Hence, at the very least, the bank will have seven market makers, with each market major managing one of the major currency pairs. The market maker's job is to set a price that the bank is willing to pay at the time for a given currency pair. Since banks deal with an enormous amount of currency compared to retail traders, any move made by a bank will have a huge influence on the exchange rates. Through the market maker, they set the parameters for each of the major currency pairs. These are the market makers in the truest sense of the word.

Of course, competition between banks helps dampen the impact. Different banks throughout the world have their market makers, and they will have their buying and selling terms, and they will have to meet in the middle to

come to terms.

Each market maker operates from a starting point of the bid and asks prices for their currency pair. They can make deals with other big players. Banks can do currency trading using credit terms, which magnifies their deals because they are much larger than they would be in cash.

Market makers can also be hedge funds or broker-dealers. These people set the rates on the retail markets where individual traders trade. While this sounds bad at first, it shouldn't put you off as far as entering trades. The reason is that there is not one market marker on the retail market. There are many market makers – remember that any F.X. dealer acts as a market maker. In the retail market, the market makers know they can attract more traders by having the best deals. This generates competition among the market makers, which can help individual traders get better deals.

One of the most important ways that the market makers help individual traders is by maintaining liquidity in the markets. They ensure that when you want to enter a trade, you're able to do so and do it instantly. Moreover, broker-dealers acting as market makers can offer more favorable spreads, which means lower costs for you to enter the trade.

You might be asking at this point how the banks play a role here. Remember that the broker-dealers have to trade with the banks. It's important to keep the complete picture of the Forex market in your head. While the broker-dealers can trade directly with individual traders, or facilitate trading between individual traders, behind it, all the brokers are trading with the banks. That means the banks have a fundamental influence on what's going on. In other words, the banks are influencing things by the exchange rates that they are willing to accept in deals and so they influence the starting point for the brokers. That is going to set constraints on what the spreads are as well.

## Political Factors and Foreign Affairs

There are so many factors that can influence the strength of currency; it's hard to list them all. One thing that has always influenced currency prices relative to one another is the international situation. Since the end of World War Two, or even before, the dollar has been seen as the go-to international currency.

A consequence of this is that if there is international trouble, people are going

to look to move their money into dollars. One thing that is true all around the world is that people will accept dollars as payment. Do you see people clamoring to get their hands-on Chinese currency? Of course not. Who would want it? China might dream of a world where they have the reserve currency, but the reality is even now, that's not anywhere near happening. The Chinese government is a totalitarian state, and people don't trust them. That isn't to say the United States government is peaches and cream. That isn't the point – but the U.S. economy remains the largest and most stable world. The fact that China's currency isn't contained in any major trading pairs should tell you something.

In recent years, China has been getting into lots of territorial disputes with its neighbors. Suppose for a moment that this turned into a "hot" war. A lot of friendly countries are in the area, including Australia, Japan, and South Korea. They'd all feel very threatened, the dollar would immediately become stronger, as currency traders would be bidding up the price of dollars on the Forex markets.

Speaking of South Korea, which is something to watch as well. The North Koreans have settled down lately, but anything that leads to instability in the Pacific region or Europe bodes well for the U.S. Dollar.

## Inflation Rates

When you have low inflation rates, it helps your currency. Maybe to get a grip on this, we can think about what doesn't help your currency. If you have high inflation, it means it takes a lot more currency to buy the same goods than it took in the past. When inflation rates are high, the time periods over which money becomes worthless can be surprisingly short. While developed countries are more stable, high inflation rates can happen. In the late 1970s, inflation rates in the United States skyrocketed. They weren't at Zimbabwe levels, but at 13-14%, they made life in the U.S. far more difficult than it would have been otherwise. Everyone also recalls that in the 1920s, Germany experienced out of control inflation. It was so bad that people had to use wheel barrels to carry huge amounts of cash around just to buy basic staples like coffee or a loaf of bread. Too bad credit cards hadn't been invented yet.

A high rate of inflation weakens the value of a currency, but the real factor is the comparison of inflation rates between countries in a currency pair. If Europe had a 1% inflation rate, but Canada had a 10% inflation rate, that

would favor the Euro over the Canadian dollar in currency trading, all other things are equal. Remember that a 10% inflation rate means that the Canadian dollar's purchasing power would be dropping 10% a year, so if you could buy ten apples last year using one Canadian dollar, this year, you could only buy nine. If you don’t have as much purchasing power at home, you’d expect to buy less with Canadian dollars anywhere, which means you could buy fewer Euros with them. If Canada had high inflation, individual traders and banks around the world would be shying away from their desire to have Canadian dollars.

## Interest Rates

The interest rates set by the central banks throughout the world can impact the strength of currency as well. This can be related to inflation since central banks will raise interest rates to tamp down inflation. This also happened in the United States in the late 1970s, when the U.S. Federal Reserve began raising interest rates to control inflation. Interest rates went as high as 18%, causing the media to create the “misery index.”

But like inflation, when comparing two countries, it’s the differences in interest rates that matter. Higher interest rates can help a country’s currency strengthen. The reason for this is simple. People are always looking for a return on their money. They want to make more money than they presently have. When interest rates are high, this can provide a lot of opportunities to make money while preserving capital at the same time. Therefore, if interest rates are higher in one country relative to another, it’s going to attract investment dollars. Foreign capital will start flowing into the country so that they can invest in anything that generates interest payments. It could be investing in bonds, real estate, or any asset that will result in interest payments. But guess what, if you want to invest in country AAA, you must convert your currency into the currency AAA. That’s a higher demand for AAA, which means its value will rise relative to the country that is the source of the funds. If the United States had high-interest rates, but Europe kept theirs artificially low, then money would flow from Europe to the United States to take advantage of the high-interest rates, which would drive up the value of the U.S. dollar relative to the Euro.

## Rising Government Debts

A high and rising government debt can weaken a currency over time. This

happens because foreign investors are less interested in investing in a country that carries a large debt. Government debt has an impact that can be said to "crowd out" investment. Again, everything is relative. The United States has let its debt get out of control over the past ten years, so you would think that would be a negative. Maybe the Japanese Yen would end up being stronger relative to the dollar. However, Japan has let its government debt get out of control too, so it's hard to see who has a favorable position relative to this one data point.

CHAPTER 15:

# Profit on the Futures Market

Fates contracts apply to agrarian wares, rising and falling as the market interest of things, for example, corn, steel, cotton, and oil change. You can make cash exchanging fates on the off chance that you pursue patterns, cut your misfortunes, and watch your costs.

## Follow Trends

Fates markets have patterns, much the same as different protections markets do. Items tend not to have a similar unpredictability as stocks; however, can likewise be less unsurprising. At the point when you distinguish a pattern through thorough research and testing, it speaks to your most obvious opportunity to benefit. The research includes investigating which components sway the organic market of the item that you're keen on. Testing includes making mimicked interests in prospects that you think you see slants in, to see whether a genuine venture would have worked out.

## Cut Losses Short

Any individual who puts resources into fates long enough is going to buy gets that lose esteem. On the off chance that a specific agreement begins to move in opposition to your desires, firmly consider undercutting and assuming a little misfortune. The option might be trusting that the agreement will ascend in esteem, just to see it fall further. Since each agreement you purchase is with the desire that it will see gains inside your time skyline, stopping misfortunes by selling will expand the arrival that you return to contribute somewhere else, and counterbalance different additions when you ascertain salary venture for your charges.

## Margins and Expiration Dates

Financial specialists exchange fates on edge, paying as meager as 10 percent of the estimation of an agreement to possess it and control the privilege to sell it until it lapses. Edges consider duplicated benefits, yet additionally profit you can't stand to lose. Keep in mind that exchanging on an edge conveys this unique hazard. Select gets that terminate after when you

anticipate that costs should arrive at their pinnacle. A March prospects contract is pointless on the off chance that you get it in January yet don't anticipate that the product should arrive at its pinnacle an incentive until April. Regardless of whether April contracts aren't accessible, a May contract is increasingly proper since you can sell it before it lapses yet hold up until after the ware's cost gets an opportunity to rise.

## Brokers and Expenses

Financial specialists exchange prospects contracts through conventional representatives just as online agent administrations. Online administrations offer less customized exhortation but at the same time are more affordable, offering exchanges for under $1 now and again. Utilize an online specialist and play out your own market investigation to minimize expenses and increment your net addition from exchanging fates. Track all costs, including intermediary charges and memberships to on the web or print productions that help you contribute, to deduct them as speculation costs on your annual expenses.

### Significant hints on the most proficient method to make benefit in the fates advertise

It is a fairly high hazard, high reward condition, be that as it may on the off chance that you recognize what you are doing, you can profit, even procure a living from exchanging the fates showcase.

Before considering going all in you should initially comprehend the concealed insider facts that are hiding underneath the dinky surface. You see beginners bounce directly in to exchanging fates without first acknowledging what the shrouded gets are.

There are some concealed gets; however, once you realize how to utilize them furthering your potential benefit then you will have the option to take steady benefits from the prospects showcase over and over.

### 7 of the most significant hints on the best way to profit in the fates advertise:

### 1. Try not to attempt the fates advertise on the off chance that you have no cash

Many individuals get the possibility that creation cash on the prospects trade

is simple and they feel free to put enormous sums on that they can't stand to lose. That is a major NO.

**2. Try not to attempt some trick or mystery you read**

The fastest method to lose cash on the fates showcase is to go out and attempt one of the mysteries you got notification from a companion. These are simply gossipy tidbits and for the most part don't work. In the event that you are going to test a specific methodology, guarantee you do it relaxed and with modest quantities of cash before going hard and fast. Little tests will assist you with seeing reliable results. You won't profit yet the dangers are little and you won't lose your whole record on the off chance that things conflict with you.

**3. Think present moment and long haul**

Try not to attempt to make sense of what will occur in the fates showcase in the following 2 hours. Indeed, this can profit; however, there are a ton of effective merchants that are making cash long haul in fates moreover. They couldn't care less about the everyday variances, or what happens each moment of consistently.

**4. Don't over investigation**

There is such an incredible concept as making a decent attempt on the fates trade. Regularly the great merchants will discover something that works, and afterward continue attempting to make the framework and procedure work better. Simply acknowledge there is no sacred goal to exchanging. There is no framework that is going to profit 100% of the time. Acknowledge you will take little misfortunes, and discover a framework that works reliably and stick to it. Keep it near you and use it as your weapon against the market.

**5. Utilize an expert exchanging stage**

There are numerous great stages you can use to exchange prospects. In any case, there is a darker side to exchanging prospects, where numerous broking houses offer carriage stages, which are more regrettable to inferior. Simply do your schoolwork first and discover what the top dealers are suggesting. These stages ordinarily play out the best and keep customers cheerful. At the point when it is your cash in danger you need to guarantee you have wellbeing and dependability on your side. Generally, there can be radical outcomes.

### 6. Know what's going on out there in the economy

After the worldwide money related emergency a few nations are doing ineffectively, and there is at present a few monetary standards issues. It may merit your opportunity to discover how the economy is getting along in your general vicinity of the world. In the event that things are not looking great it is smarter to set aside cash to purchase day by day things before you go gambling everything on the fates advertise.

### 7. Utilize a demonstrated stop misfortune the board framework

This is the main motivation behind why numerous merchants out there come up short. They toss cash into the fates advertise without pondering what their arrangement is if things conflict with them. Things won't work out as expected 100% of the time. Taking misfortunes are a part of the game, and increasingly like a cost of doing business for proficient brokers. Simply acknowledge it and consistently leave a position on the off chance that it conflicts with you. It is difficult to concede you aren't right, yet simply acknowledge it and get out the exchange. That will guarantee you have cash for the following exchange that presents itself.

## Exchanging Knowledge for Success of Futures Market

Greatness is a result of difficult work

Appropriate exchanging information is the way to accomplishment in the prospects advertises. You can go right back to the Bible, and it will advise you about the significance regarding shrewdness. Adages reveals to us that shrewdness is the rule thing, and to get insight and comprehension. The entirety of the incredible brokers and financial specialists from the beginning of time took a stab at securing the information important to get world class. This is the manner by which they made fortunes exchanging the different markets. There is no easy route to turning into a world-class broker.

### Study and learn as much as you can

In the event that you need to make progress in the prospects showcase, you essentially should place in the time and exertion important to secure the best possible exchanging information. Achievement originates from knowing, and following demonstrated, fixed guidelines. The individuals who need information normally surmise, or pursue the counsel of TV characters. This is a sure catastrophe waiting to happen. Fruitful exchanging has nothing to do

with karma. Concentrate their methodologies, techniques, and standards. Execute what you realize into your very own exchanging.

**Do not put together your exchanging choices with respect to feelings**

Probably the greatest misstep new brokers, and even experienced ones make, is to be affected by feelings, for example, dread, insatiability, and expectation. One approach to cure this is to execute an effective exchanging plan that accommodates your character. On the off chance that you just pursue flag legitimately from your arrangement, it will assist you with trading just on certainties, and not feelings. Try not to belittle the significance of appropriate exchanging brain science. It is a significant piece of your general exchanging information that will prompt achievement in the prospects advertise.

**Charts will give you extraordinary data**

On the off chance that you appropriately study the value developments and volume on a diagram, they will reveal to you more about what is happening than any investigator, TV character, or merchant. Diagrams are an incredible wellspring of history, with pieces of information to future value developments. There are a few repeating value designs demonstrated to be effective over numerous decades. My undisputed top choice is the level base example. I have exchanged it effectively for more than 20 years. Cost and volume examination are totally vital in the event that you need to be a reliably effective broker. You need to pass judgment on a ware, stock, or any broad market by its activity.

**Instructions to effectively exchange**

Following an unmistakable pattern is one of the significant keys to making a great deal of cash exchanging the different markets. On the off chance that a market is in an exchanging range, have the tolerance to hold up until it unmistakably breaks obstruction or backing. At that point float along with the market. Try not to avoid the pattern. Make sure to rehearse sound cash the executives consistently. This can be accomplished by deliberately putting stops following you take a position. When the market goes your direction, actualize trailing stops to ensure benefits. You should rehearse sound judgment all through the whole procedure. This originates from appropriate exchanging information and experience. You can turn into a reliable victor in the fates showcase or the financial exchange.

**CHAPTER 16:**

# Common Trading Mistakes to Avoid

## Not timing the market correctly

While everyone is familiar with the old adage buy low and sell high, it doesn't translate particularly well into practical advice. Many investors who attempt to buy low when they think the market has bottomed out or try and sell when the market is at an apparent peak often lose out those to those investors who simply purchase reliable pairs and hang onto them for the long term. What's worse, many of those who attempt to time the market end up losing lots of money which can be devastating depending on how heavily they were invested in the scenario.

## Making investments that are too risky

It is important to keep in mind that the further you are from retirement, the riskier of investments you can make as you will have more time to recover if you choose poorly. However, once you are within 5 years of retirement it is always going to be better to take the safer investment with the lower estimated return than it is to invest in anything even remotely risky. A good rule of thumb when it comes to determining how much of your overall portfolio could be in forex is to take your age and subtract that number from 110. The result is the percentage of your portfolio that should be based around stocks.

## Making investments that aren't risky enough

If you are closer to retirement then the greater mistake is making investments that are too risky, if you are further away from retirement then the greater mistake is not taking enough chances. When you have plenty of breathing room between now and your retirement it is important to take advantage of this fact to the fullest and take greater risks to help maximize your earning potential while you have enough time to mitigate the additional risk. If you are currently in your thirties, then a full 80 percent of your portfolio could be in the forex market without issue.

Historical analysis proves that you can expect to earn a minimum of seven

percent per year on your investments assuming you make smart trades. This is one of the highest returns you can expect from any time of investment which means you are doing yourself a disservice if you chose safer, lower risk alternatives instead. Even if you are extremely risk adverse, you can still afford to choose pairs that are more volatile and hang on to them for the long term to mitigate that risk as long as possible. Even if the profits trends below your purchase price for ten years, that won't matter as you likely have at least another ten before you need it to provide a solid return on your investment.

**Not knowing your limits**

It is certainly possible to enter into retirement without having to micromanage your finances. But in order to do so you are going to need to plan for a less complicated retirement strategy prior to retirement, something that few people take the time to do. This will require meeting with a financial advisor and taking their advice to heart, again, something that not nearly enough people do. You should meet with a financial advisor and then again about five years before you retire, just to ensure you are on the right track. Be sure you have the basics of your retirement investment plan outlined before you go and listen to any of the suggestions they make. After all, you only get to retire once, it is best to make it count.

**Being overconfident**

Many people believe that they are smarter than the market as a whole which means they can be the odds, even if the odds are very, very low. If you don't think this is the case, then consider how many people play the lottery on a regular basis. If you are someone who plays the lottery on a regular basis, it is important to be aware of this propensity and avoid betting more than is rational when it comes to individual trades.

The fact of the matter is that most people are going to be average, at best, when it comes to trading in the forex market. What this means is that you are going to want to do everything in your power in order to mitigate this average performance when it comes to trading.

**Never only look for information that confirms what you already believe**

If you are dead set on trading in forex pairs that you choose yourself, it is important to do as much research as humanly possible before committing to anything. After all, even if you still have plenty of time before you need to

start changing a majority of your holdings away from forex, you never want to throw your money away. As such, when you are doing your research, it is important to look at all of the available data, not just that which conforms to the ideas you have about an existing stock.

**Don’t resort to anchoring**

Anchoring is the term given to irrationally being stuck on a specific number for a specific trade, without having any real reason for doing so. The same thing can happen to those who hold onto a specific pair for too long and miss a profitable sale point in the process. Or worse, if you are holding onto a currency that you bought at $5 which then drops to $3, an anchoring mindset will cause you to hold onto it despite conventional wisdom saying it is better to cut your losses before it drops even further.

The most efficient way to avoid an anchoring bias is to ensure that you have a firm trading plan in place with buy and sell points determined before you make a commitment. Knowing what you are going to do before you do it is a great way to ensure that your emotions don’t get in the way and to prevent you from anchoring without even realizing it.

**Accept that loss is a part of the process**

The forex market runs on risk, this is a fact and cannot be changed no matter how much you wish this might be the case. Risk drives price and is ultimately responsible for any profits that you make in both the short and the long term. With this fact in mind, it then becomes much easier to deal with loss and respond to it accordingly. While this doesn’t mean that you should take unnecessary risks, it also doesn’t mean that you should hold onto losing propositions simply because you don’t want to accept the loss.

**Trade robotically**

If you ever hope to make money in the forex market successfully, then there are a number of skills that you are going to want to hone as much as possible, starting with the ability to trade like a robot. When you have a trade on the line that could make or break you, it is only natural to be scared or anxious, but those emotions are only going to cloud your judgment if left unchecked which is why it so important to box them up and bury them in the ground when you are trading so you can only focus on the facts in front of you. Fail to do so, and you will watch in fear as your sure thing turns into a huge loss

as opposed to jumping into action right away in order to salvage as much profit as possible.

CHAPTER 17:

# Risk Management

Risk management will help shield a dealer's record from losing the entirety of their cash. The hazard happens when the dealer endures a misfortune.

On the off chance that it tends to be overseen it, the dealer can open oneself up to profiting in the market. It is a basic yet regularly ignored essential to effective dynamic exchanging. All things considered; a merchant who has produced significant benefits can lose it all in only a couple of awful exchanges without an appropriate hazard the executive’s methodology.

## Planning Your Trades

“Each fight is won before it is battled.” This expression suggests that arranging and methodology—not the fights—win wars. So also, fruitful dealers generally quote the expression: “Plan the exchange and exchange the arrangement.” Just like in war, preparing can frequently mean the contrast among progress and disappointment. To start with, ensure your specialist is directly for visit exchanging. A few dealers oblige clients who exchange rarely. They charge high commissions and don't offer the privilege of logical instruments for dynamic merchants. Stop-misfortune (S/L) and take-benefit (T/P) focuses speak to two key manners by which brokers can prepare when exchanging. Fruitful merchants comprehend are happy to pay and are eager to sell. They would then be able to quantify. On the off chance that the balanced return is sufficiently high, they execute the exchange.

On the other hand, fruitless brokers regularly enter an exchange without having any thought of the focuses at which they will sell at a benefit or a misfortune. Like players on a fortunate—or unfortunate streak—feelings start to dominate and manage their exchanges. Misfortunes regularly incite individuals to hang on and want to make their cash back, while benefits can allure brokers to hang on for significantly more gains impulsively.

## Consider the One-Percent Rule

A great deal of informal investors pursues what's known as the one-percent rule. Fundamentally, this dependable guideline proposes that you should

never put over 1% of your capital or your exchanging account into a solitary exchange. In the event that you have $10,000 in your exchanging account, your situation in some random instrument shouldn't be more than $100. This technique is normal for brokers who have records of under $100,000—some even go as high as 2% in the event that they can manage the cost of it. Numerous merchants whose records have higher adjusts may decide to go with a lower rate. That is on the grounds that as the size of your record increments, so too does the position. The most ideal approach to hold your misfortunes within proper limits is to keep the standard underneath 2%—anymore and you'd hazard a considerable measure of your exchanging account.

## Setting Stop-Loss and Take-Profit Points

A stop-misfortune point is the cost at which a broker will sell a stock and write off the exchange. This frequently happens when an exchange doesn't work out the manner in which a dealer trusted. The focuses are intended to avert the "it will return" mindset and point of confinement misfortunes before they heighten. For instance, if a stock breaks underneath a key help level, merchants regularly sell as quickly as time permits.

For instance, if a stock is moving toward a key opposition level after a huge move upward, dealers might need to sell before a time of union happens.

## Instructions to More Effectively Set Stop-Loss Points

Setting stop-misfortune and take-benefit focuses is frequently done utilizing specialized examination, however crucial investigation can likewise assume a key job in timing. For instance, if a broker is holding a stock in front of income as fervor constructs, the person might need to sell before the news hits the market if desires have gotten excessively high, paying little heed to whether the take-benefit cost has been hit. Moving midpoints speak to the most mainstream approach to set these focuses, as they are anything but difficult to compute and broadly followed by the market. Key moving midpoints incorporate the 5-, 9-, 20-, 50-, 100-and 200-day midpoints. These are best set by applying them to a stock's graph and deciding if the stock cost has responded to them in the past as either a help or opposition level. Another incredible method to put stop-misfortune or take-benefit levels is on help or opposition pattern lines. These can be drawn by associating past highs or lows that happened on huge, better than expected volume. Like with moving

midpoints, the key is deciding levels at which the value responds to the pattern lines and, obviously, on high volume.

**When setting these focuses, here are some key contemplation**

Utilize longer-term moving midpoints for progressively unstable stocks to lessen the opportunity that a good for nothing value swing will trigger a stop-misfortune request to be executed.

Stop misfortunes ought not to be nearer than 1.5-times the present high-to-low range (instability), as it is too liable to even think about getting executed without reason. Modify the stop misfortune as indicated by the market's unpredictability. On the off chance that the stock cost isn't moving excessively, at that point can be fixed.

Utilize referred to central occasions, for example, income discharges, as key timespans to be in or out of an exchange as unpredictability and vulnerability can rise.

## Calculating Expected Return

Setting stop-misfortune and take-benefit indicates are likewise vital figure the normal return. The significance of this count can't be exaggerated, exchanges and excuse them. Too, it gives them an efficient method to analyze different exchanges and select just the most gainful ones.

This can be determined utilizing the accompanying recipe:

[(Probability of Gain) x (Take Profit % Gain)] + [(Probability of Loss) x (Stop-Loss % Loss)]

The aftereffect of this estimation is a normal return for the dynamic merchant, who will at that point measure it against different chances to figure out which stocks to exchange. The likelihood of addition or misfortune can be determined by utilizing authentic breakouts and breakdowns from the help or opposition levels—or for experienced brokers, by making an informed conjecture.

## Diversify and Hedge

Ensuring you benefit as much as possible from your exchanging implies never placing your eggs in a single crate. On the off chance that you put all your cash in one stock or one instrument, you're setting yourself up for a

major misfortune. So, make sure to broaden your ventures—crosswise over both industry areas just as market capitalization and geographic district. In addition to the fact that this helps you deal with your hazard, however, it additionally opens you up to more chances.

You may likewise get yourself when you have to fence your position. Consider a stock position when the outcomes are expected. You may think about taking the contrary situation through choices, which can help ensure your position. When exchanging action dies down, you would then be able to loosen up the fence.

## Downside Put Options

On the off chance that you are affirmed for choices exchanging, purchasing a drawback put alternative, at times known as a defensive put, can likewise be utilized as a fence to stem misfortunes from an exchange that goes bad. A put choice gives you the right, however not the commitment, to sell the hidden stock at a predetermined estimated at or before the alternative terminates. In this manner on the off chance that you claim XYZ stock from $100 and purchase the half-year $80 put for $1.00 per alternative in premium, at that point you will be successfully halted out from any value dip under $79 ($80 strike short the $1 premium paid).

CHAPTER 18:

# Trend Trading

Because trend followers are trying to catch the long tail, they typically adopt a relatively straightforward strategy. They buy when the market is rising and sell when it is on its way down. What they hope is that they are getting in on the start of a trend, which they then ride to its profitable conclusion. They don't actually care whether the market is rising or falling – they are unbiased and can make profits in both cases.

Because of this, trend followers not only need to jump on waves that look hopeful – in other words, a rising or falling stock – they also need to be prepared for when things go wrong. While they need to ride the winners to their conclusion, they also need to get out quickly and cut their losses on losing trades. If they didn't do this, the losses would overwhelm the wins, leading to an inevitable – and costly – result. In other words, the goal is to have a few big wins that more than offset a larger number of small losses.

## How to Find a Trend

Traders who follow trends typically use technical indicators rather than raw price charts to identify trends.

They do this because indicators provide an objective way of establishing when a trend is underway and they are easy to program into trend following trading systems. Even so, some traders do rely on naked price data —known as price action— to find trends though this is a much riskier approach.

## Moving Averages

One of the most popular indicators for identifying trends is a moving average. This is basically the average of the price for the previous several trading intervals. When a smaller number of intervals is used, this is known as a fast-moving average, since it reacts quickly to changes in price.

When a larger number of intervals are used —a slow-moving average— then this tends to change more slowly. The benefit of using a moving average is that it tends to eliminate any short-term fluctuations in the market, giving a more accurate view of the overall market direction.

Traders use moving averages to determine whether or not a trend is developing and typically use two moving averages together — a fast one and a slow one.

When the fast-moving average crosses over the slow one, this is an indicator that an upward trend is underway and is usually a strong buy signal.

If the fast-moving average then falls below the slow-moving average, a downward trend is underway and the trend trader will sell.

## Breakouts

Another popular way of spotting a trend is to look for breakouts — these are relatively easy to see on charts.

Here, the trader will look for a price to break out of its trading range and make a new high. For instance, if the stock has been trading between $2.20 and $2.30 for the last 50 days, and then rises to $2.35, then this is a strong signal that an upward trend may be forming. Different traders use different intervals —the 50-day interval above is just an example— since there are differing opinions on which intervals predict the market most accurately.

Most trend followers use trading programs to test which time intervals work best for finding profitable breakouts then work these into their trading systems.

## Other Approaches

There are hundreds of other indicators that trend traders can use. Many traders use these to get an extra edge, but the risk is that they make trading too complicated — which can lead to mistakes.

Some of the most popular of these other indicators include Bollinger Bands and moving average convergence/divergence (MACD). Another popular indicator is the relative strength index (RSI), which measures how strongly the market is moving up or down. This is used both to determine when the trend is strong —and likely to continue— as well as when the trend is too strong, in which case the market may become overbought or oversold, leading to a price trend reversal.

Ultimately, it’s important to focus on the end goal, which is to capitalize on long term trends. Simple strategies often work just as well as more complex ones in this.

## Managing Risk

Trend traders do not expect to make a profit on every trade. Generally, trend followers win around 30% - 40% of trades.

Because of this, it becomes very important for them to limit the amount they lose on the trades that don't work out. This is the discipline of risk management.

The first principle of risk management is not to risk a disproportionately large amount of your total capital. Most traders will limit their risk to less than 2% on any one trade – meaning, for example, that they will not risk more than $200 if their total capital is $10,000.

Of course, that doesn't mean that they only make a $200 investment. What it does mean is that they look at the maximum that they can lose on the trade, and then use this to establish how much they invest.

For example, they might buy a stock at $2.10, and then place a stop order which is triggered if the stock hits $2.00. They are expecting the stock to rise, but if it does fall, then the maximum that they can lose is $0.10 per share. This means that they can afford to buy 2000 shares and only risk $200. In this case, their total investment is $4200 – which is significantly more than the $200 they are risking.

## Stops or Not

Importantly, some trend followers may use stops and some may not.

In the example above, using a stop loss limits the downside of a potential losing trade but it also ensures that you exit a trade at a loss.

It's for this reason that some trend followers find stop losses can undermine their overall performance. In this instance, it's worth doing some investigation into what kinds of stops work the best for the strategy in question.

Some traders prefer different types of stops such as a Chandelier stop or volatility measured stops. Other traders prefer to use stops that only get triggered very occasionally. The reason that a stop often exits a trade at the worst possible time. It's therefore far better to use an exit strategy that does not involve a stop loss.

For example, if you buy a market on an EMA crossover, you should sell on

an EMA crossover too. By optimizing risk, you can estimate that your average loss rarely exceeds 1% or 2%. This can be preferable to risking a set 1% or 2% on every trade since markets are never so predictable.

## Risk: Reward

Traders will also look to see a good risk/reward ratio on their trade. For example, if they are risking $0.10 per share, as in the example above, then they will typically look for a trade where the potential profit is three times or more – they are expecting the stock to go up by at least $0.30. In fact, some traders will look for a multiple of 5 to 1. To establish what the potential profit is, they will analyze similar past historical trades, and will also look at other technical indicators to determine what the price movement is likely to be.

## Trend-Trading Systems

Trend traders tend to take a mathematical approach to trading, relying on indicators to decide which stocks to trade and when. Unlike fundamental traders, who tend to apply more individual judgment, trend traders tend to stick to the numbers.

Using crossover moving averages as a signal is one of the most common of these is when the 50-day moving average rises above the 200-day moving average, crossing it from beneath – this is known as a golden cross.

Similarly, when the opposite cross happens —the 50-day average falls below the 200-day one— this is known as a death cross. One system could be to buy when a golden cross occurs, and sell when a death cross shows up.

Because this is a very well-defined strategy, it is easy to go back and see if the strategy would have generated profits using historical data. The trend trader can then discard any strategies that obviously don’t work, and then optimize the ones that do by changing the parameters – for example, using periods other than 50 and 200 for the two moving averages.

Of course, this is a very simple example of a trading system — and because of its notoriety, it’s unlikely that it will produce staggering returns anymore. Trend following systems can be much more complicated of course.

Because they are all well-defined, they are relatively easy to automate using computerized trading systems. This not only reduces the amount of manual work that the trader needs to do, it also takes a lot of the emotion out of the

equation — which is important, since emotions often lead to trading mistakes. Even if they are able to automate their trading completely, however, trend traders shouldn't make their systems too complex. First of all, this means that they could fail in unexpected ways – more complexity makes systems more unpredictable. At the same time, there is the risk that they develop a system that fits all the historical data perfectly —just because it has been tuned to do that— but really has no validity when it comes to anticipating future market behavior.

## Curve-Fitting and Other Biases

Indeed, trading systems that work well on past data do not always work well on future data. Curve-fitting a system to past data is just one of a number of biases that a trader needs to overcome in order to develop a system that is robust and ready to use on real markets.

Selection bias dictates that a trading system's performance could just be by chance, while survivorship bias can impact on a system by not taking into account the fact that many securities that have fallen off of the exchange.

CHAPTER 19:

# Right Tools to Trade Profitably

To make sound decisions, you need to base them on solid fundamentals. There are financial models which can help you evaluate the performance of a company. Upon proper evaluation, you can determine if the stock is right for you, or you can take a pass on it until its fundamentals improve. These models are based on quantitative analysis. Much like technical analysis, quantitative analysis refers to basing decisions on the number and measurable data. While your instincts are definitely important, it is data-driven analytics that will give you the peace of mind that you need when making an investment decision. At the end of the day, you can be confident that you made the right call based on the analytics which you have used to base your investment decisions.

## Tool #1: The Three-Statement Model

This model lives up to its name.

It is based on the analysis of a company's financial statements. Hence, the name "three statement model" refers exactly to this type of model.

To conduct the right analysis, you will need to have the following financial statements: balance sheet, profit and loss, and cash flow statement.

In this model, what you are doing is essentially linking all three statements so that they make sense of the company's financial situation. You can use this model to get an accurate idea of a company's overall financial position. If the numbers show health financials, then you can feel that the company is in good shape and will produce good results down the road.

Now, the way this model works is that you will find a way to link all three statements into one model. What you can do is take the trend of each statement and look at the way they all move together. So, if all three statements show a trend for growth, then you can be sure that the company is in good shape.

However, if one the balance sheet is growing, but the profit and loss and the cash flow show signs of trending in the opposite direction, you would need to

figure out why this is happening. There could be some unexpected situations, but the company is still solid.

If the company is posting profits, but their balance sheet is taking a hit, then you can assume that their financials are out of whack. In this case, you would really have to evaluate if this investment is really worth it. Perhaps it might, but a very short-term deal.

The use of this model is perfect for value investing and identifying the potential for a turnaround in a company that's been under water in recent history.

## Tool #2: Initial Public Offering Model

An initial public offering (IPO) is the even in which a company switches from being a private company to be a publicly traded company. In this event, the company is valued at a certain price per share by that company's financial team, and then the IPO is underwritten by the bank or investment firm, that is essentially sponsoring the IPO.

The issue here is determining the right IPO. This is based on the company's book value, and then a comparative analysis is conducted on the IPOs of other similar companies to see where your valuation can fit in.

When you conduct your comparative analysis, you need to consider a set of variables which can be compared among companies. For example, you can compare revenue, gross sales, number of employees, annual turnover, growth rate, and so on.

The actual variables which will be considered can all be compared in a large spreadsheet.

Then, each variable can be contrasted with the comparably-sized companies so that you can visualize if the results obtained correspond to the comparable.

If you find that your company is above the variables seen in most comparable, then you might be able to value your company at a higher per share price. If you see that it is below, then you might want to reconsider going public at that time. You might want to hold off going public at that time and wait until the company's financials improve.

Now, as an investor, the IPO valuation model is very useful since it allows you to see how individual companies stack against each other. This allows

you to determine if your choice to invest in an IPO will make sense for you, or if you're better off waiting for the stock to prove it in the market first.

However, I would like to recommend that you consider getting into IPOs whenever you have the chance since being one of the early stockholders can provide you with an opportunity to clean up when the stock takes off. As such, investors who get into the early stages of an IPO can position themselves for making good gains. This can happen when you understand the comparable of that company's IPO. You can see if the valuation makes sense, or if it's being valued too high. In which, you might want to wait to see what happens in the market first. If you see that the valuation is below comparable, then you might be looking at a potential bargain.

## Tool #3: The Revenue Model

This model consists in charting a company’s revenue over a given period to see the trends in that company's revenue.

You can build a model for each company you are interested in trading based on its revenue.

The best way to build this model is to take its historical revenue reports, chart them and then calculate its trend line. You can do this on commercially available software such as Microsoft Excel, although your brokerage firm may offer you this type of analytics so you won't have to calculate it yourself.

So, how can you interpret this model?

Once you have charted the historical data for a company's revenue, you can then look at its trend and determine if it is growing or declining. I would recommend that you look at 10 years' worth of data since it will give you an accurate picture of where the company is going. This would be 10 years of quarterly reports. That means that you could have 40 different data points where you can contrast the company's trend.

With this model, you can see if the company is still expanding, leveling off, or declining.

When you see that a company's revenue is growing, you might consider it to be in an expansion phase. Depending on the age of the company, it could still be developing as part of its growth phase. If the company has been in the market for a longer period of time, say at least 50 years, you may want to

take a look at older data, for example, 25 years, and see if the company is having a renaissance due to factors such as management turnover, the introduction of new products, or a shift in market conditions.

This model is simple since it only looks the behavioral patterns of one variable over time, but it is the most powerful variable in stock trading. You can then overlay a company’s revenue trend line with that of other economic variables such as Gross Domestic Product (GDP), inflation, consumer confidence, and major stock indices to see if the company is responding to the factors around it, or it is producing results in spite of the trends observed in the overall economy.

The best part of this model is that you can overlay as many variables as you like to get a sense of where that company's revenue is going as compared to any number of variables in its surroundings.

## Tool #4: The Forecasting Model

Industry experts will produce forecasts for companies’ revenue.

These forecasts respond to the available data that analysts are looking at when determining where a company’s earnings report should fall. These forecasts will produce an actual Dollar figure which estimates where that company’s earnings report should fall.

Usually, forecasting is done on some earnings per share basis. This means that the per earnings per share price are calculated based on that company's track record and other variables which can be taken into account such as economic conditions affecting it, and any other variables which may come into play.

From that, analysts will produce a forecast where they expect that company’s earnings per share to fall in line.

This is where analysts' expectations are bred. If the company beats analysts' expectations,

## Tool #5: Resistance Level Model

This model takes the trend in moving averages to determine where “resistance” levels can be found. A found resistance level is a psychological barrier that investors and traders must pass in order to continue with the stocks trend.

Resistance levels are seen both at the top and the bottom, that is, both the floor and the ceiling of a stock.

If a stock is trending upward, you may often see that it won’t pass a certain point. This would be a resistance level. And, it is often hard for a stock to break through a resistance level because investors may not feel comfortable with paying a certain price above a previous high.

In order to determine resistance levels, you need to look at the candlesticks of a stock and then compare it to its overall trend at the different points for moving averages. It could be that the 10-day moving average is trading in a given range, but it is not surpassing the high point of the 200-day moving average.

When you are in the presence of a resistance level, you can choose to approach the stock in a number of ways.

First, you can choose to day trade the stock within that range. For instance, you can set up a buy order when the price falls to the lowest point you have observed in its 10-day or 50-day trend. Then, you can set up your sell order when it hits the resistance level ceiling.

This strategy can help you make some decent if underwhelming profits. But as long as the stock doesn't break the resistance level, you can feel confident about trading within that range.

## Tool #6: The Gap up Model

When stocks close on high at the end of a trading day, investors may be looking to continue pushing the stock upward at the opening of the following trading day. This is common when a company's report data in the afternoon of a trading day.

As such, investors may choose to wait until the following trading day to pursue this stock. As a savvy day trader, you can purchase the stock right at the beginning of the trading day and wait for the gap to fill. When you hear that a "gap is filling," it means that the stock will go back to its previous highs after the euphoria has passed.

**CHAPTER 20:**

# Creating Passive Income with Dividend Stocks

Companies want as many people as possible to buy their stock. A dividend is a payment companies issue to shareholders each quarter, which equates to a percentage of the share price. This percentage is known as the dividend yield.

For example, AT&T (T) currently sells for around $38 a share. Their dividend yield is currently set at 5.41%. This means that annually, you will earn 5.41% in profits on top of wherever the stock price moves. So, if you were to buy $10,000 worth of AT&T stock, and the price stayed at $10,000 for the entire year, you would receive $541 worth of dividends, split out each quarter. This comes out to about $135 a quarter.

Dividends are issued quarterly when companies announce earnings. To earn this dividend, you must own a stock before it declares its ex-dividend date, which is usually about 2 weeks before the company actually pays out its dividend. You may be thinking why not just hold a stock for two weeks, sell it, and rake in the dividend? Unfortunately, this is all calculated into the price. What happens is on the day a dividend is paid, the stock price moves down by the same amount of the dividend payment. So ultimately you need to hold the stock for the long term to get the most benefit from dividends.

There are many companies which have increased their dividend payment every year for 25+ years straight. Knowing this, and because dividends tend to pay at a higher rate than savings accounts or government bonds, many traders of retirement age own dividend stocks. They then live off the dividend payments through their retirement years. For example, $1,000,000 is the typical amount many financial advisors suggest clients to have saved by the time they retire. If a retired individual owns a dividend stock which has a 4% dividend yield, they are receiving $40,000 a year in dividend checks. Considering most bills are paid off by retirement age (house, car, etc.), this provides plenty of income to live off of while keeping their primary capital intact. And of course, many dividend stocks rise in price over the years. This means not only are dividend checks being received, but the capital is also

increasing.

## Charts

There are a number of places to perform research on stocks, as in places where you can look at charts and financial information to see how a stock is performing. Two free websites beneficial for this are Yahoo Finance and FinViz.

There are three main charts used by various traders when viewing stocks. They include the line chart, the bar chart, and the candlestick chart. Here is an example of the stock Snapchat (SNAP) shown on a line chart.

Here is the same stock shown on an open, high, low, close (OHLC) bar chart, and then shown on a candlestick chart.

For most traders, the line chart is fine to use for everyday analysis. One disadvantage to it however, is it only shows the closing price, which is displayed in the form of a line throughout the chart.

The OHLC bar chart and candlestick chart show additional information. They not only show the closing price, but also show the opening price, low, and high of a given time period (5 minutes, daily, etc.). Whether a trader decides to use a line chart, bar chart, or candlestick chart is a personal preference. I prefer to use candlestick charts when I am researching stocks.

And just to clarify, when you are looking at a "daily" chart, you are not looking at just one day's worth of a stock price. The whole chart shows a specified date range you set, while each individual candlestick in the chart shows one day's worth of trading.

If you were instead looking at a "15-minute" chart, each candlestick would be showing 15 minutes' worth of trading. A 5-minute chart, each candlestick would show 5 minutes' worth of trading, etc. The whole chart itself shows the date range you specify. If this is confusing at all, it will make more sense once you look through a few charts.

Along with the type of chart used, charts also have two scales: logarithmic and linear. The linear scale is the most common, and what is shown on almost every broker or website you visit. It displays the same amount of space between all price numbers.

For example, the chart below is a linear scale chart of AMD. You’ll notice

that the spacing around $10-$20 is the same as between $20-$30. However, thinking about this with a math brain, you may recognize that from $10-$20, the stock has actually increased 100%, while from $20-$30, the stock has only increased 50%. So, the range shown is not actually proportional to the percentage the stock increased, but instead just equally spaced between dollar amounts.

The logarithmic scale chart is different because it takes the percent change into account, as opposed to just the dollar range. The same stock is shown below, except this time on a logarithmic scale. As you can see, it takes into account percentage change, and spaces the dollar amounts out proportionally. Thus, it ends up showing a different looking version of the same chart.

Which scale type a trader chooses to use is a personal preference?

## Volume

As briefly mentioned before, volume is synonymous with the number of trades, both buying and selling, that take place in a given time period. Generally, when there is more volume, there tends to be a smaller bid/ask spread.

Volume is usually shown at the bottom of charts, in the form of lines. I have an example below with a chart of Coca-Cola (KO).

The chart shown is a "daily chart," meaning each volume bar at the bottom of the chart represents one day's worth of trading volume. So, from Dec. 2019 - Feb. 2020, between 3 million - 20 million shares of KO were bought and sold on any given day.

There are a number of different times frames you can look at charts, which include 5-minute, 15 minutes, daily, weekly, etc. The volume shown directly correlates to whichever time frame chart you are viewing. For example, if you were viewing a 5-minute chart, each volume bar at the bottom would include 5 minutes' worth of trading volume.

For the most part, especially if trading well-known companies, you don’t have to worry too much about volume. It becomes more important when dealing with thinly traded stocks (e.g., penny stocks), and certain trading strategies in which volume can be used as an indicator.

## Stocks, ETFs, and Mutual Funds

While you're already familiar with what a stock is, you may not know what ETFs and mutual funds are. Mutual funds were the first on the block, being offered to retail investors in 1974 by Wells Fargo. Many financial advisors suggest "diversifying" a portfolio in order to achieve beneficial returns, while also limiting risk. This would mean instead of just putting all your money into one stock, you would split your money into multiple stocks. This way if one ends up not doing well, you have a number of others which will likely be okay.

Unfortunately, this was hard for everyday retail investors. Not only would you have to keep up with the top companies in the market, you would also need to pay a commission on each trade. And remember, commission during this time was very expensive. Mutual funds alleviated all this, as they allowed investors to buy an already diversified set of stocks consolidated into one ticker symbol, which was actively managed by a mutual fund manager for a small fee.

For example, a popular mutual fund created by the company Vanguard is the Vanguard 500 Index Fund (VFINX). This mutual fund correlates to the S&P 500, meaning a consumer could buy this mutual fund with their broker and essentially own all the S&P 500 for a one-time commission fee. The disadvantages to mutual funds are the limited hours of the day you can trade them, as well as the fees taken by the mutual fund company to balance the fund for you.

In the early 1990s, the first exchange traded fund (ETF) was introduced. Similar to mutual funds, they allowed traders to diversify their portfolio by buying just one symbol. ETFs gained more popularity than mutual funds though because they could be bought and sold like a stock during normal trading hours, and the fees associated with owning them were much lower.

Today there are hundreds of ETFs available for traders to buy, in sectors such as the S&P 500, gold, oil, retail, and any other category you can think of. Within the last 20 years, 2x and 3x leveraged ETFs have also become available, which essentially double or triple your purchasing power when you buy them.

For example, a popular ETF which correlates to the S&P 500 has the ticker SPY. If you were to buy $10,000 worth of SPY, and the S&P 500 went up 1%, your account would also go up 1% ($100). A popular 3x leveraged ETF

that correlates with the S&P 500 goes by the ticker symbol UPRO. If you had instead invested this same $10,000 in UPRO, your account would be up 3% ($300).

Of course, this also works in reverse. Meaning if the S&P 500 went down 1%, your account would now be down 3%. So, the leveraged ETFs essentially become a gamble. The stock market is Wall Street’s casino!

While items like contango and backwardation can affect the prices of leveraged ETFs, just know they are essentially doubling or tripling your risk/reward when you buy them.

## Earnings

Each quarter, publicly listed stocks are required to report their earnings to investors. While the exact date a company reports their earnings vary, most companies report them around the same time as each other each quarter.

Earnings are a very important metric for companies, as it lets investors know how the company is performing, and if they are making sufficient profits. Before earnings announcements, financial analysts who work in banks and other large corporations predict the earnings per share price they expect the company to announce. Generally, how it works is if a company beats estimates, the stock price will rise, while if they miss the estimates, the stock price falls. This is not always the case, however, as other factors may skew the stock price.

Stocks can experience huge gains or losses on days they announce earnings, in the double-digit percentages. Generally, it's not a good idea make short term "bets" on earnings, as it's essentially playing the roulette wheel at a casino and betting on black or red. Also, many times the analysts are wrong, and sometimes wrong big time. Don't ever rely on analysts! I would compare them to palm readers, as they do not know what is going on behind the scenes and are making "educated guesses" for their estimates.

CHAPTER 21:

# How to Buy and Sell Stocks

Now that you have understood the basic parameters to look for in a good stock, you are ready to move to the next step, buying the stock you like. This process isn't difficult once you have your brokerage account.

E-Trade, TD Ameritrade, and Merril Edge are some of the online brokers you can choose for buying stocks online.

## Buying a Stock

You must pick the stock only after doing thorough research. Look at the fundamentals of the company thoroughly. In the beginning, you may not understand all the technical jargon given in the 'financials' segment.

There is a big difference in buying stocks with a long-term perspective and buying them for intraday trading. Intraday traders are more focused on the daily movement of the stock prices. As a long-term investor, you don't need to bother about the daily movement of the stock. Even if the price of the stock has fallen in the past few days, but the fundamentals of the company are strong, and there is no negative news about the stock, then you can buy it.

This is a decision you must take, depending on your ability to invest. As a beginner, you must not invest all your money in one stock all at once no matter how bright the stock may appear.

First of all, make a careful decision about the amount you want to invest in. If you have $100 to invest, don't put all of it in the first trade. Buy a few shares and then observe the stock performance for a few days. This will give you greater confidence, and you will be able to invest more in that stock later with more optimism.

Investing all your money in a single stock is not a good idea as you would lose the chance of diversification. You may feel that it is a small amount, and you can take the risk of losing that money in a stock. However, that is again a short-term perspective.

If you want to invest for the reason of wealth creation, you would be

investing more money at regular intervals, and this will increase your stake over the period of time. Investing smaller sums into several stocks will wider your reach and you would be more open to considering other stocks too. It will prevent your money from getting locked in one stock in particular. It is a habit that you will have to build. Many people think that they'll invest in other stocks when they have more money but end up investing all they have again and again in one stock itself as they haven't expanded their search area. Any specific negative news can then affect their investment adversely in their case.

## Order Type

When you are ready to buy the stock, you will come across several technical terms on the trading platform that you will need to understand.

**Ask Price:** This is the price that the seller is looking for at that moment. This is not the final price on which you have to buy that stock. You can wait for that price to come down a bit due to market fluctuation, and you can also put your own price somewhat lower than the asking price. This is just the price the seller is ready to accept for the sale of that stock at that moment.

**Bid:** This is the price you can set for buying a stock. You will have to enter this price when you bid for the stock. If you want to buy that stock, it is generally prudent to keep it near the asking price, or the trade may not get executed.

**Spread:** This is the difference between the highest ask price and bid price at that moment.

**Limit Order and Market Order:** These are important terms that you need to understand.

**Market Order:** When you buy stocks at the market order, you are actually expressing your consent of buying the desired number of shares at the current price of the market. If you are going to buy a limited number of shares, then the trades would get executed immediately at the current ask price. However, if someone is trying to buy a very large number of shares at market order, then the actual price at which the trades get exacted may be higher as the trade can take longer to execute, and the seller may increase their asking price looking at high demand. Remember that the stock market functions of demand and supply mechanism. The higher the demand the greater would be

the price.

For long-term small investors, market orders are the best as they ensure that your trades get fully executed at the same time. If you place a market order in 'after hours' or after the trading has closed for the day, your trades will get executed at the beginning of the following working day. In that case, there can be a variation in the price.

**Limit Order**: Limit orders are good for intraday traders who are buying stocks for smaller margin profits. To them, even smaller trade margins matter and hence they use this feature. However, limit orders have no guarantee of getting executed as they will only get executed when they hit the fixed price mentioned by you. Generally, this difference is very small and that's why it wouldn't matter much in the long-term.

## Selling a Stock

Selling a stock at the correct time is also equally important. The whole point of keeping a close watch of your selected stocks is to remain fully aware of their performance in the market. It is a fact that in the long-term, the companies with strong fundamentals usually perform well. The reason is very simple; the companies are inclined to grow. There is a complete system that is trying to make a profit and as a result, even your money invested in that stock makes a profit.

However, this may not be the case for every business venture. There can be times when a company that has been doing everything right starts to move on a downward curve. There can be many reasons for the downfall of the company.

### First – The Value Judgment

Here, it is very important that your decision to exit a stock must not be a knee-jerk reaction. You must understand that many people try to square off their positions in a fundamentally sound company at the first news of anything bad about the company. Many a time there is nothing substantial about such gossip and the companies come out of the initial shock reaction very fast. But, if you try to exit a stock when many other investors are also trying to do the same, you will be looking at a major loss. Remember, the market works on a demand and supply rule. When most people are thinking of selling their stocks, and only a few people are ready to buy the prices of

the stock would go down rapidly.

But, in the case, you have a strong reason to believe that there is something wrong with the fundamentals of the company or something is happening which might damage the prospects of the company in the long-run, it would be wise to make an early exit before the market gets panic-stricken. Your decision should not be emotional but financial in nature.

**Second- The Order Judgment**

The next thing to do is to judge the type of order you want to place. Like buying, you can place the orders too as a market order and limit order.

**Market Order:** In case you suspect there is something very wrong with the company, and there is a chance that panic like situation may arise, it is good to make an early exit. Through market order, you will be able to square off all your positions in that stock at the market rate and wouldn't have to wait for long.

If you have placed your order in the 'after hours,' the order will get executed at the start of the following business day at the prevailing rates.

You will have no control over the rates in such a situation, and whatever the rate at the time of opening will be your orders will get executed at that price.

**Limit Order:** You can place this type of order if you don't feel that there is anything wrong with the company but want to book your profits for some other reason. The limit order option gives you better control over the price you'll get.

The required details would be:

**Quantity:** The number of shares you want to sell. Here, you can choose to square off your complete position or rebalance your stock position a little by selling off a few stocks in this firm. Fill in the exact number of shares you want to sell.

**Order Type:** You will have to fill the kind of order you would like this to be. This means you want to place a market order or a limit order.

**Time in Force or Order Expiration:** The next thing that you would have to put will be the 'time in force' or order expiration. This clearly states the period of time for which your order would be valid.

This is a feature put in place to give you better control.

The various terms you may come across in it is:

**Day:** This means your specific order can be good for the day, and you might want to have a different price or strategy for the next day. If you place this order and the trade doesn't get executed the same day, you will have to place a big again on the next market opening.

**Good till Cancelled:** You can also place an order that's good for as long as it takes to execute that order or before you cancel it. This gives you freedom from placing the bid again and again for that stock.

**Immediate or Cancel:** You can also place an order under this category to dump your holdings in that stock immediately. However, any part of the order that remains unfulfilled will automatically stand canceled, and you will have to place a bid on it again and if you want to square it off.

**Fill or Kill:** This type of order is placed if you want to square off a large position all at once. You can place an order, and this will only get executed if your complete position in that stock is getting squared off.

**On the Open:** This type of order will get executed at the opening of the market. You will not have any specific control over the price on which it gets filled. It will be highly dependent on the sentiment about that stock price at the market opening.

**On the Close:** This type of order will get settled at the price prevailing at the time of the market close.

CHAPTER 22:

# How to Be a Successful Trader

Winning traders have several character traits that help them be successful. Below, I will go over a few of these traits that can set you apart from those that have failed miserably.

## Rise Early and Shine

Waking up at an early time is very crucial to your day trading abilities. You do not want to rush your routine for your pre-trading hours. When doing day trading, you are able to make quick decisions when faced with pressure, and it is very crucial for you to be fully awake as well as an alert when the market opens. When you go on a walk an hour prior to working, this will increase your endorphins and give you a natural high that will carry you through the day with extra energy. This gets your blood moving and helps you get alert quickly.

## Do Some Research

If you have stocks that have just been added to your watch list, then you will need to do the research prior to the market opening. To trade a stock, you should be fully informed about why it is moving. Being inadequately prepared can show up in how you trade for that day. You should trade with confidence and a little less uncertainty, especially if you prepare yourself completely prior to investing or trading the stocks.

You need to know the key support levels as well as the intraday resistance that is listed on the charts daily.

## Ensure That Trade Plans Are Followed

Prepare a plan for all the scenarios that could arise with the stocks that are on your watch list. They are well informed of where they will stop out, enter, and take profits all before they enter for the trade. Without a trading plan, you will be more stressed out, and it will present as a more difficult accomplishment. You will need to prepare in advance.

## Investors Know That Trading Every Day Is Not Necessary

A winning trader can tell you that every day will not be positive, and some days are not good for trading opportunities. If you cannot recognize these days, then you will fail. When trading, you can win or lose, knowing when to step back is necessary.

To grow your account, it's just as much about avoiding the losses as well as the wins. Recognize the criteria that make it an A+ stock opportunity. This helps you to recognize when to sit on your hands.

## Reflect on the Trades That You Have Purchased

If it does not get measured, then it does not get improved. Successful traders will track their trades religiously. Examine the wins and see what each one has that connects them. Then, use that analysis to replicate this for future purchases. For those trades that are losses, you will need to analyze the common connections and avoid making those same mistakes. Eliminate the habits which lead you to the losing trade, which is outside your plan of trading. Not every single losing trade is an actual bad trade. It is unavoidable for a losing trade not to happen, so remember that it will happen—just make sure you are prepared for it. If you lose due to a rule of trading, then you will need to figure out why, and then you can make changes to prevent it from continuing to happen. There are other ways that show the mentality of a successful day trader and how to fix the mental game that is helping them increase their profitability.

## Small Losses Happen — Embrace Them

When working as a day trader, you will deal with losses. This is customary; however, you need to be able to handle it. Losses can impact your emotional stability, and it can make a big dent in your confidence. You must recognize the triggers that lead to loss and can create a revenge trade, as well as some micro-managing that will influence us to make improper procedure changes or even dump a stock that we should hold on to. By embracing small losses, you will be able to fix the trigger of loss. A small loss simply means that you are testing the waters and doing something right. If the losses are sandwiched between some bigger wins, you will be able to handle them easier.

## Consider Your Next 100 Trades

Many traders can live or die by the actions of their trades, or the need to

make their next trade. Over long-term trade should be analyzed for the overall focus, and this should not be connected to the gains or losses of that time period, but the overall time period that you own the stock.

Do not stress out because of the loss that you receive. In the grand picture of building your trading portfolio, one loss can be meaningless. Instead, consider obsessing about those 100 trades that come next. This can keep you focused on something that is not pertinent. The short-term is what you should be focusing on; however, you would be focusing on the process. When trading for probability, you will experience losses for good trades. If you experience a drawdown, then you are not poorly trading your stocks. Do not let a positive trade with short terms that are poor impact the results of the psychology of the trade.

## Reduce Your Risks to Fight Back the Fear

Placing trades can be scary. When you place your cash in the hands of another, you are stressed and worried. It is hard to trust that you will not lose it. Anyone that has been practicing trading, who then goes out on their own, must know how it feels to fear losing money. Fear can manifest into your trading strategy and keep you in a losing streak. It makes it harder to pull the trigger on a trade than it would be if you were not so fearful. Reduce your risk if fear is showing up for you when trying to trade. If your loss is small, then you will be less scared to trade.

CHAPTER 23:

# The Emotions of Trading

Many traders believe that the results (positive or negative) that are obtained by operating in the financial markets depend mainly on the psychological aspect. Discretionary traders, in particular, are unlikely to be able to make steady gains without being able to control their emotional states. Knowing and analyzing them can, therefore, help to avoid incurring errors that could result in particularly heavy losses.

The mistakes that are made are essentially of two types: cognitive errors and emotional errors. The first relate to a certain predisposition to make mistakes, due to some prejudices that are formed in the head of the trader. The most common are hyper-optimism, over-confidence and confirmation. All three-commit ex-ante, that is, before entering the position.

Over-confidence leads us to believe that we know/know more than we actually know, thinking that we can control complex phenomena such as financial markets. Instead, you make a confirmation error when you only take into account information that supports your personal point of view, discarding the information that contradicts it.

Then there are cognitive errors that you make ex-post, that is, after a position is closed. The first is the attribution error, which blames mistakes on others and never on themselves; the second is the error of hindsight and consists of judging the price movement as easily predictable in retrospect.

Both of these mistakes do not allow you to have the necessary experience and avoid committing them again in the future.

## Fear

It is the most frequent emotion and is linked to the risk of suffering losses and, in some cases, also to the fear of losing possible opportunities for earning.

Fear can arise:

a) Before entering the position. The fear of losing money (particularly

if you come from a series of negative results) can lead the trader to be hesitant to get into position, despite all the analysis indicating the presence of an interesting situation. In these cases, further confirmations are often sought from other indicators and the danger is to waste valuable time and then be forced to chase the market (thus entering a higher level than the budgeted one, with the real danger of taking a higher risk than that established in the construction of the strategy).

b) When the position is already in place. In this case, you are afraid of losing what you are earning, fearing a sudden turnaround. For example, a simple pause is enough to make us nervous and induce us to close a position in advance, without the market and indicators coming warning signals. An early exit, if the market then continues in the assumed direction, leads to subsequent recriminations (linked to the fact that it has obtained only a small profit, compared to a much wider movement carried out by the market). Both of these errors arise from a lack of confidence in one's methodology, which, after being evaluated and tested, should instead be followed consistently and rigorously.

## Desire

When a position does not go in the right direction, it is hoped that at a later date the market will end sooner or later to give us a reason. In some cases, the exposure is increased, carrying out a very dangerous "average price" operation. Often we do not accept the fact that we have wronged the initial analysis (or to recognize that the market has changed its technical structure), you want to prove at all costs that you are right and that you know more about the market. The reality, however, is one: the market is always right and in trading you have to put aside your ego and know how to accept

## Defeats

Then there is a particular form of desire that concerns the desire for revenge. When you suffer losses, at first there is a sense of frustration and disappointment. Then the desire to make a new return, to resume what has been lost. This behavior often leads us either to increase the operation (with the danger of going into overtrading, that is, to operate with extreme frenzy, entering and exiting the market several times without the conditions), or to

increase the size (the size) of the positions that are opened. This behavior usually leads to additional negative results, generated by taking higher risks than those you are able to manage. If you do not accept that a good part of the positions is destined to be closed in stop-loss, it means not understanding what trading is, an activity that is based on strategies that have a statistical basis. And since there are no strategies that have 90/100% success, it means that in most cases, we will be dealing with operational techniques that will have a positive result in 60/70% of cases.

## Disappointment

After a series of closed trades at a loss or after a period in which the desired results have not been achieved, it is normal that there is disappointment and despondency. However, this situation must not lead us to take greater risks, just because of the desire to do it again as soon as possible. Many are tempted to significantly increase their exposure to the market, with the sole aim of returning to profit as soon as possible. In doing so, however, we are exposed to risks that are excessive, which in most cases only lead to further suffering. Trading requires patience and perseverance: positive results can only be achieved if we can calmly and disciplined deal with the various situations that the markets offer us. Trading is not a speed race: it can be compared to a 10,000-meter race, where you must first maintain a steady pace. There may be stages when you can accelerate, but you must be aware that there are also periods when you have to suffer.

## Uncertainty

Uncertainty often arises from some negative results, which have undermined security in its operational strategy. In these situations, some traders play defense and prefer to stay out of the market for a while. This attitude, which is prudent in itself, could prevent some interesting situations that, in addition to generating a good profit, could return a little confidence in their operations. Other traders prefer to reduce the size (size) of the positions in order to reduce the level of risk to which they expose themselves and to regain confidence with the market. In these situations, however, it is preferable to re-examine the latest trades made, to understand what were the mistakes made, analyzing both the technical situation on the market and how the various positions were managed.

## Anger

When you suffer losses of a certain size it is normal that you get angry, first towards the market and then with yourself. The first reaction, quite normal, is to blame others for our mistakes: we think there is a conspiracy against us, ordered by the “strong hands,” which by moving at their leisure prices aim to make us lose. This is, of course, a completely unmotivated thought: often, in fact, the losses result from a misinterpretation of the technical situation on the market or the fact that it has not correctly identified the graphic levels on which the strategy should be set. The most emotional traders, in the wake of this feeling of anger, often increase the way their operations are indiscriminate, creating the conditions for further failures. Often you decide to enter with a large capital on a single operation, doing a kind of "all in" and hoping to make the trade that suddenly heals the budget in the red of our operation. It is useful to point out that in most cases, this bet results in a new and burning disappointment. As a result of positions that have generated or are generating heavy losses, panic then subsets.

## Panic

It is the mental situation that takes place when losses have taken on such a dimension that they can no longer be endured and managed. The position was not closed when prices fell below the stop-loss level and when the loss was small (the entity of which had been defined and accepted during the construction of the strategy). The loss has become more and more substantial, to the point of becoming so substantial that it leaves no other way for the trader/investor: to abandon the position to itself and hope that in the medium/long term the market will return, if not all, at least some of the initial capital. The consequences of this situation can be devastating, both from a monetary and psychological point of view: confidence in our strategy is undermined and the danger is that we are then afraid to return to the market (both for the insecurity that comes with it and for the fear of trying such negative sensations).

## Euphoria

There are periods, in fact, when we have become in total harmony with the market, with the latter appearing to move according to our indications. If we decide to enter long, prices immediately accelerate upwards, if we open short positions, the market immediately drops decisively. In this situation, where

there is absolute confidence in our operation, we often run the risk of exaggerating, deciding to excessively increase exposure and taking ever higher risks. The danger, however, is around the corner: it will take a few loss-making trades to bring us back to earth and bring everything back to normal (made up of many transactions that generate low profits/losses and few transactions that manage to produce appreciable results).

**CHAPTER 24:**

# Reasons Why Most Traders Fail

If you are considering a career in day trading, you can't ignore the statistics which show that only 10 percent of traders will be able to make a living out of trading. This shouldn't discourage you from running trades, but instead, it ought to give you the reason to read about the error's traders make so that you steer clear of them.

Most of the traders that have failed were unable to follow just simple rules of risk management. This will be handled in subsequent units. However, let us look at the reasons why it is hard to follow the basic rules of day trading.

As a trader, trading becomes tough when you make many losses as compared to wins. As a day trader, you are in a position to lose money each day. If the day is good, you end up winning more than you lose and then you have net profit.

However, even on the best days, rest assured that you will at least lose a few trades. You will never find a trader that has 100 percent success in any trade. The best traders will be profitable every month of each year, but it would be statistically impossible to expect 100 percent every month. Even those investors who make millions of dollars still have losses. The traders that have had losses allowed the fear of losing to guide their decisions.

Here are the mistakes:

## Jumping from One Strategy to Another

If you are a trader that isn't focused on a particular strategy, and you keep on jumping from a strategy to another, then you need to think twice; otherwise, you will be losing out very soon. Instead of benefiting from your trades, you will end up spending a lot of time and energy looking for the perfect combination of strategies and indicators that you think will give you a winning trade.

It is always good to look for a winning trade, but this might not be the motivation for the trader. Under the surface is a deep fear of losing in the market, which pushes you to search endlessly for the perfect strategy with the

hopes of avoiding more losses.

The fear of losing out make these traders come up with automated systems, look for other traders that they can ape trade for trade or jump from one strategy till they exhaust the funds they have and then give up. If you are part of the traders who hunt for the perfect strategy without scoring on any, then you need to understand that you can lose more than half the time and still make a profit.

**Overlooking Profit and Loss Ratios**

P/L ratios are often overlooked by new traders. Before you can go into the world of trading, you need to consider your history of profit and loss. The ratio tells you the average percentage of success when they run any trade. The numbers tell you if you have a sustainable strategy. If you have a 2:1 P/L ratio, it becomes easier for you to make a profit.

Many new traders usually trade with a negative P/L ratio, which means they have a negative percentage of success. This means they lose more than they win eventually. Regardless of the percentage of success, they set the bar so high such it becomes impossible for them to succeed. The odds are usually stacked up against them. Statistically, if you have a P/L ratio of 1:2 or less, then you will lose more than half of what you make.

**Fear of Financial Loss**

Fear is a natural reaction to various situations, but it is tough when a job requires you to experience fear regularly. Many traders experience fear in several ways. The most common is the fear of loss of investment.

We know that investing money in the market on a daily basis is a high-risk endeavor, but when faced with a decision to run a trade and expose ourselves to potential loss, then fear guides our decisions. Another form of fear is the fear of missing a potential big move in the market. This happens when you see a stock suddenly start rising on what might be the trigger, or you note a reversal sign and you feel inclined to take a step.

As you can see, fear has taken control and you have jumped into the market so that you don’t miss out on a potential winning trade. The fear guides you, and you place your money in an unplanned trade. Many traders often say they have lost a trade because it happened faster than they thought. The trader made a fast decision which turned out to be the wrong one. Spontaneous

trading contributes a lot to losses.

## Holding onto a Losing Position for Too Long

Many traders hold onto losing positions too long in their quest for finding the perfect trade. Why should a trader hold a losing position too long? This is basically fear of losing. You feel that the price might jump back up till you hit the sell position. The fear of making a loss keeps you holding onto the trade because you keep on looking for a way to turn the trade around instead of giving up on the trade and moving to a different one.

The issue is that small losses might not be a big deal, but those traders who are ruled by emotion don't think that way. For instance, some traders set maximum losses in their strategy, but to cut their losses, they add more shares so that they could trade out the loss. Such traders end up making more than double their set loss.

For successful traders, the need to follow the rules is precedence for most of them, but when emotions are running high, the rules become obsolete. The most important rule for new traders is to adopt a loss cap and stick to it.

## Selling Winning Positions Too Fast

If you hold a position that has a huge profit potential and it fits into your strategy, the last thing you want is to complete the trade before it works out. If the trade is rising and you have a potential to make more from the trade, then there is no reason to sell it.

So, why do many traders sell their positions too soon? The main reason is the fear of losing out that guides their decisions. Remember, a loss isn't real until you hit the "sell" button against the trade.

To be successful at day trading, you need to cap losing positions and let the winning trades run. A failing trader sells their winning trades too soon and holds onto losing trades for longer. To avoid the losses, the traders much address how emotions affect their trading patterns.

## Failure to embrace Loss in Their Trades

Instead of trying to hold onto losers and sell winning positions, you need to learn to accept losses as part of your day trading. Each trader experiences losses each day, but the only mistake they do is fail to identify when a loss is enough.

Day trading needs you to have a lot of discipline as well as self-control. You will come across a lot of challenges each day than you can imagine.

**Poor Trade Habits**

Many traders find themselves stuck in a cycle of trading habits that lead to losses and disappointments. Understanding the basics of day trading is not enough to make you successful, instead, you need to act and think like the successful trader you want to be. This means teaching yourself to take decisions based on preset rules. You also need to have a mindset of a successful trader. Many traders opt for meditation and exercise to train their minds so that they can cope with stress.

Rather than take steps to beat the feeling, the successful trader trains himself to withstand the emotions.

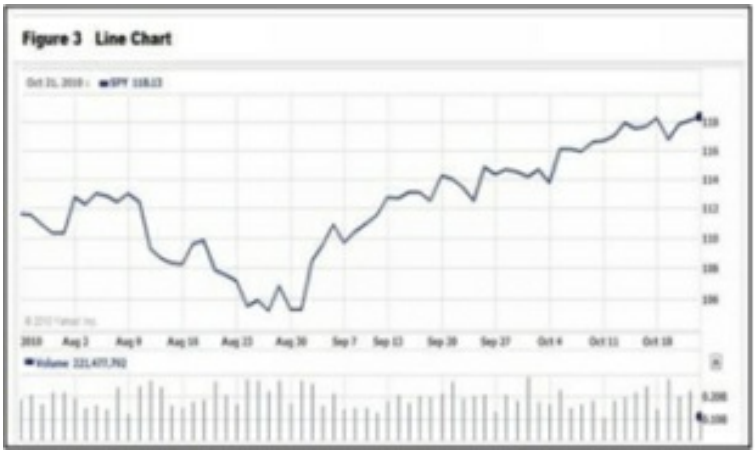
**CHAPTER 25:**

# Charts in Detail

We will start with a single Line Chart and Bar Chart and progress from there.

A line connecting following closing prices is the simplest form of charting. These line charts are useful for trend analysis going back 2 – 5, or even 10 years or more.

See Figure 3 below:




The chart below is a bar chart and is one of the most basic forms of chart. We can determine the general movement of the stock, and draw a reasonable conclusion as to the possibility of future movement.

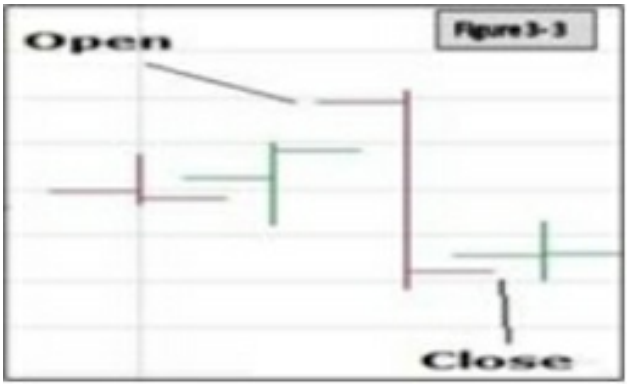
See Figure 3-2 below:




As you can see, the stock was trading in December (center of the chart) in the

$35 to $40 range and over the course of 6- months it doubled in price. This was obviously during the tech boom of the late 90s or early 2000. Thus, over a 6-month period of time, the primary trend was up.

Note that each day in the above chart is indicated by a separate ‘bar.’ Each bar has a little ‘tick’ on the left side indicating the opening price that day, and the little ‘tick’ on the right side of the bar indicated the closing price for that day. The length of the bar tells us the trading range for that particular day, as noted by the arrows on the above chart. Here is a closer look at how the daily bars on a chart indicate the opening price, the closing price, and the trading range for the day.

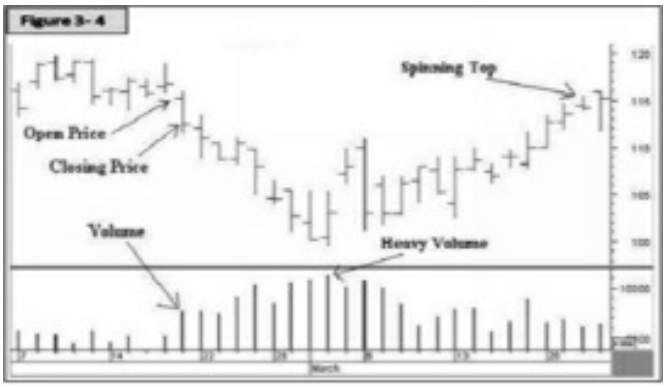



Remember this as we progress.

Also remember that whether you are looking at a daily, hourly, or even a weekly chart, the trends and pattern formations will tell you pretty much the same thing in relation to the chart you are viewing. Meaning, if you are looking at a daily chart, then the general trend should be viewed as a daily basis. In other words, do not make decisions for long-term investments based on what you see on a 5-minute chart or an hourly chart. And don’t make day-trading decisions based solely on a one-year chart.

For instance: A 3-month chart shows the daily bars for each trading day represented on that chart. And, a chart of one single trading day will show 1-minute, 5-minute, or possibly 10-minute bars. But each bar represents its open, close, and the trading range for its respective time period.

The construction of a daily bar chart is simple. Fortunately, these are free on the Internet, and constructed for you. The vertical bar is drawn from the day’s high to the low. The tick to the left is the opening price that day; the tick to the right is the closing price.




Volume bars are drawn along the bottom of the chart. See these indicated by the arrows on the above chart.

These are constructed for you, but it is vitally important that you understand what each bar and their respective ticks mean. These will be used in detail as we progress.

## Candlestick Style Chart

Another type of charts, are the candlestick charts. Although the basic information is the same as the bar chart, they are widely used because of their ease in quickly determining the information.

Candlestick charts are preferred by some because the view is easier to see the color variations indicating up and down days.

See Figure 3-5 below:




The narrow wick of each candle is the day's trading range. The fatter portion, the body on the candle, is the area between the opening price and the closing price. Open candles are positive, meaning the stock closed at the top of the open body. This is the same as the bar chart showing the 'Tick' on the right side of the bar as the closing price. The darker candles are negative, meaning

the stock closed at the bottom of the body. In other words, it opened higher for that day and fell to close at a lower price.

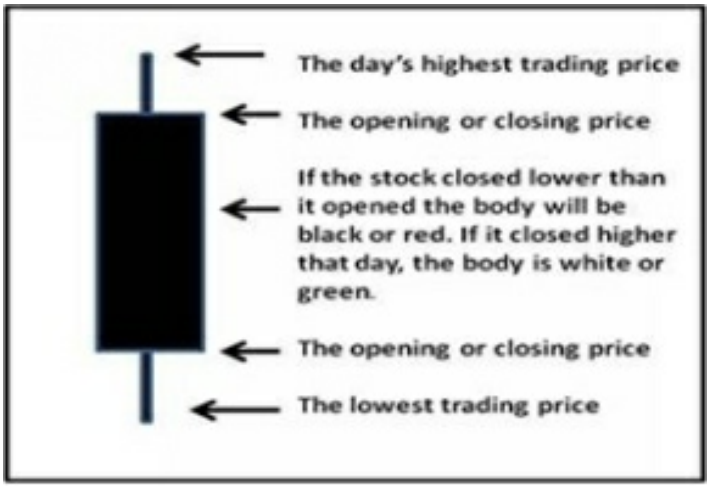
Let’s look at the difference in bar charts and candlestick charts. Candlestick charting gives exactly the same information as the bar chart as you can see in the following picture; the candlestick is more colorful and easier to assess the information quickly.

The following is a comparison of Candlestick vs. Bar Chart.




## Candlesticks Defined

### What does the Candlestick look like?


The day’s highest trading price
The opening or closing price
If the stock closed lower than it opened the body will be black or red. If it closed higher that day, the body is white or green.
The opening or closing price
The lowest trading price

### What does Red (or Black) Candlestick Mean?

The color of the candlestick tells us whether that candle was formed by a positive trading day (advance in price) or a negative day (decline in price). If the closing price is lower than the day's opening price, then the body of the candle is red or black. See the following picture:




Note: Most charting software allows you to customize your charts to reveal your desired colors. This enables you to choose your personal preference as to the color for your OPEN candles and for the CLOSED candles.

**How about the White Candlestick?**

The white candle, also known as the "OPEN" Candlestick, shows the price move up.

The bottom of the white body represents the opening price and the top of the body represents the closing price.

Thus, this candle will represent a positive "CLOSE."

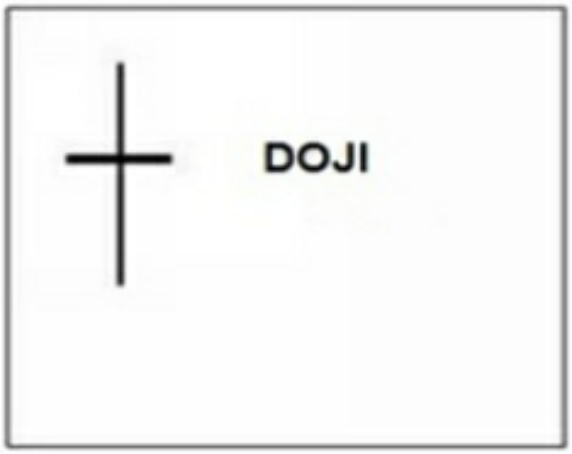



In the preceding comparison, you can see that the Bar and Candlestick charts would say the same thing. They simply look different.

Let's look at some very familiar 'indicators.' Candlesticks form based solely on the price movement and many of the candles are very telling. They are great indicators of what is likely to happen in the near future with respect to the price of the stock. Many of these candles have been given names to identify them. So let's look at each one and learn the importance it has when

seen on a chart.

## DOJI




DOJI is a name for candlesticks that form when a stock's opening price and closing price are virtually equal. This DOJI tells us that during the trading day, the stock moved higher and lower and neither the buyers nor sellers were more prominent. It says the stock traded up and the sellers stepped in and traded lower and the buyers stepped in. When just looking at a DOJI it appears very uneventful, but when combined with other candles and trends, it can be very telling.

When thinking in the perspective of a market trend moving higher or a downward trend moving lower, the DOJI is a very telling sign that the number of buyers and sellers has become equal. Therefore, after the market or stock has been in a trend, either up or down, and suddenly a DOJI is formed, then this tells us that since the buying and selling has equaled out – then a reversal of the current trend may be ahead.

## The Shooting Star




The Shooting Star is a Bearish candle that forms after an advance in the stock or index price. Try to think of it in this manner. The price has advanced for several candles, or days, and tries to continue the advance. It opens and trades higher, creating the tall wick on top of the candle, but then the sellers take over forcing the price back down to close near the opening price. This is an early indication that the advance has lost its momentum. Technically, according to the above picture, the closing price would need to be below the opening price. However, that is not always the case. Meaning, if you simply switched the open and closing prices on the above picture, it would still indicate an early warning for a reversal, maybe just not as pronounced as the close that is lower than the open. But it would still be a warning sign.

## The Evening Star

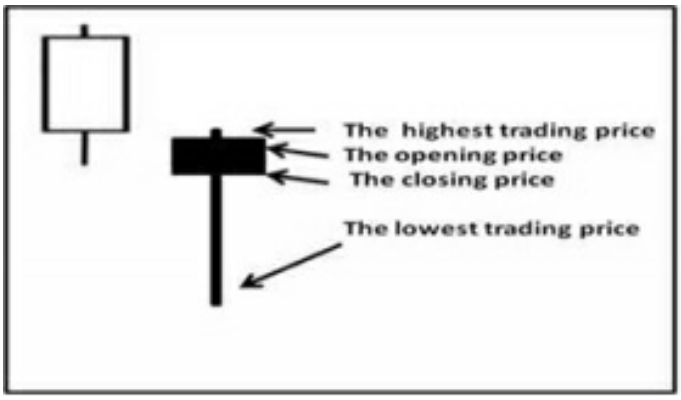



By itself, the DOJI at the top of the formation would just be a DOJI, meaning the opening and closing prices were virtually equal. But when the dark candle forms the following day indicating a change in direction, then this DOJI becomes what is called an Evening Star.

The large white candle preceding the DOJI indicates buyers jumping in after a significant advance. The Evening Star indicates inability to move higher, and the Bearish Engulfing candle the following day confirms the sellers have entered the market.

Another very important Candle is called the Hammer.

## The Hammer




The Hammer is normally found at the bottom and forms when a stock has been in a downtrend and finally reached a support level. It is very similar to a mirror image of the Shooting Star at the top of an advance.

When this Candle forms at the top of a pattern after an advance, it is called the Hanging Man. Both look very similar and can have either a positive or negative body.

Some prefer one, some prefer the other. The two charts say the same thing — they just simply look different. So use whichever one you personally prefer.

**CHAPTER 26:**

# How to Start Forex Trading

Forex (Foreign Exchange Market) is the biggest financial market in the world. Therefore, Forex trading refers to currency exchange trading. As you know, currencies need to exist in this world. Without them, people will not be able to buy and sell goods. Now, these goods will not always be bought and sold in the local country alone and will also have to purchase from a foreign country. Now say, for example, your line in Germany and wish to buy a laptop from China. The German currency is Euro, and the Chinese money is Yuan. Now, when you want to buy a computer, Chinese seller will only accept dollar, because it is the most widely accepted currency and easy to convert into Yuan, which is the ultimate currency he will wish to in his bank account in China. So, you will have to exchange your Euro for Dollars to pay the Chinese seller. Here, you have to understand that the currency will get converted to individual "Exchange rate" quoted by the market at the time the conversion occurs. This "rate" will always be a difference in the values of the currencies. This difference will still prove to be an advantage for one country and a disadvantage to another in ways that we could analyze in the future.

Now say 1 Euro valued at 20 Yuan. That means that the German trader can exchange 1 Euro for 20 Yuan and 100 Euro for 2000 Yuan. Here, the Yuan trails the Euro, which means that Germany is in a better place in terms of forex trading. On the other hand, if a trader in China were to buy wine from Germany, then he would have to pay a lot more towards it due to the difference in rates between the two currencies. That is just an example, and the difference in prices can be quite different from this. It can be higher or lower in value.

Now here, a buyer wanted to exchange the money because they wished to buy something from a foreign seller, but Forex not always traded for this reason alone. It also purchased to capitalize upon the difference in values. You could be able to make big profits if you play the game right, but there are certain things that you must learn about first to invest in the Forex market.

## Concepts of Forex Trading

The very first concept that you must understand is the majors. The majors refer to the major currencies that regularly traded in the Forex market. The stock market has thousands of shares that the trader can choose. That more often than not ends up confusing the trader and might also cause them to make the wrong investments. But this problem is tackled in the Forex market, as there are certain significant currencies that you can trade-in regularly. These are based on trends and after understanding which countries provide you with the best overvalued and undervalued advantages. Here is the list of the eight significant countries that you can turn to remain with the highest profit.

- The United States of America
- Canada
- Europe
- United Kingdom
- Switzerland
- Australia
- New Zealand
- Japan

These countries and their currencies are identified as the big eight because they have the best financial markets and manufacturing capabilities. These facts allow their currencies to always remain in demand for exchange. If you exchange any of these currencies at the right moment, your investment will surely be safe. For that, you have to follow the economic scene of all the individual countries continually.

You have to understand that the Forex market works in a simultaneous buying and selling fashion. That means that if you want to buy one currency, you will have to sell the one you have at the same time. This is easy to understand if you have, for example, physical Euros, and walk into a bank and exchange for real Dollars. You sell your Euros and purchased Dollars. One transaction that includes buy and sell. But in the Forex world, we trade Forex symbols called “pairs.” So, when you are buying one currency, you will automatically be selling another. In the simple example mentioned above, you traded the pair EUR/USD. In a trading platform, you use this symbol if you want to buy Euros (in Dollars) or Dollars (in Euros). All pairs

or symbols have the same principle. If you “buy the symbol,” you are buying the first currency if you “sell the symbol” you are buying the second currency. You have to get used to this concept to trade in Forex. You will have to calculate the basis points of the money based on the difference that you can calculate by looking at the trending rates of the two currencies. The basis points refer to a measure of the interest or any percentages that you need to figure before you go ahead with a deal. You will be able to calculate your gain by doing so.

The rate of return in the forex market is quite large. That means that you can remain with a big profit or a significant loss, depending on your investment. There have been cases of people making millions by just investing a few hundred or thousand dollars. That is possible if you know to invest in the market the right way. Let’s say you spend $10 in the market and it gives you a return of $1000. That is highly possible in the currency market. However, if you get it wrong, then you might end up losing a lot of money. The currency market is extremely volatile, and you have to remain abreast of the difference in values of the currencies. The idea is to look for coins that momentarily undervalued; that way, you can expect a significant change in value to close the transaction at your desired profit finally. If at any time you feel that the prices of the currencies are going to cause you a loss, then you must sell them off.

The forex market offers you dual benefits when you invest in the market. It is better known as the Currency Carry Trade. The Currency Carry Trade is one where the person stands to benefit in two ways. Let us look at an example. Now let’s say a Chinese trader exchanges 5000 Yuan for dollars and buys a bond with the dollars’ worth. The trader will receive an interest of 5% on the relationship provided the rate of exchange between the two countries remains the same. If it does, then the trader will stand to gain a profit of 50% owing to the difference in the currency values. That is an added benefit to the fact that the trader will also be able to avail of a profit from selling the bond later. Here, you have to understand that the exchange rate between the two should remain the same; otherwise, the trader will lose money. This risk is quite high with currencies whose prices are quite volatile. You will not be able to predict the difference in rates, and by the time you withdraw from it, you probably would have lost quite some money. The difference in the rates usually occurs over the years and will not be within a short period.

Unlike the regular Stock Market (that deals with regulated Financial Instruments), Forex is always traded OTC (over the counter). That means that the currencies are not considered “financial instruments” in most countries and not regulated as such. Banks and Brokers trade currencies via an Electronic Communication Network (ECN). Average Forex that is different from a stock market exchange like NYSE or AMEX. A dealer will be responsible for the trade, and there will be no centralized control over the business. It is the same manner in which penny stocks and bonds exchanged. You will have to do some homework on how you can start trading in your local market as the method differs from country to country. You have to look at dealers that will help you get these currencies. All Banks and Brokers, authorized to exchange, are connected to this network. In essence, you need a licensed bank or broker to handle your orders via the internet.

These form the different basic concepts of Forex that you have to understand if you wish to trade in it. They will act as your guide when you partake in forex trading.

CHAPTER 27:

# Tools

For centuries now, traders have used Forex Tools to increase productivity through improved performance. Ever since the early times of human existence, people have evolved and learned how to use tools to make their life easier. Imagine that some years back, people would not easily communicate with each other and currently, people are communicating with each other as soon as they want regardless of the time and the distance.

Tools are literally indispensable in life especially in the current years, and this case also applies for forex trading too. Brokers make a point of providing traders with some of the most advanced trading platforms to help them get the best experience and maximize profits. One example of this is Meta4, but many tools are more powerful and other features that enhance the trading experience. Without trading tools, Foreign exchange can be very challenging for both the new and seasoned traders. As such, many traders look to complement their decision-making skills through the use of different trading tools. The tools help the trader determine the most profitable exit and entry point.

Forex tools are provided by the brokers and platform providers for free, or the user may be required to subscribe for some. Some of the free tools offered by most websites dealing with forex and financial news are the economic calendars. Some forex signal trading services also provide the traders with trading cues that help the beginner traders.

Some popular online trading platforms such as Meta Trader 4 offer a compilation of the best trading tools. In particular, Meta Trader 4 offers a cover — all package of trade indicators and trade automation options.

Fundamental analysis tools are some of the popular and most useful tools of the trade that a trader can get online for free. Some of these tools include the economic news calendar and financial newswire access. Other tools of trade available for the trader can be found on different platforms and forex news.

## Economic News Calendar Tool

Economic news calendar is one of the most essential and useful tools of the trade used by traders. The list informs the trader of the futures market consensus and also the previously released information about the relevant geopolitical events and key economic data. The calendar also lays out the timings of monetary policymakers' speeches, central bank policy statement, and elections. Fundamental analysts have a special interest in the calendar because of the fundamental economic releases that will affect a country's currency. The typical providers of these calendars include brokers and news websites.

## Financial Newswire Access

As a supplement to the calendar, economic news gets disseminated by a range of financial publications. The news outlets include respected newspapers and financial wires such as Reuters, Market Watch, Journal, and the Financial Times. There are also other publications and sources online that are less know but viable. These tools analyze the important economic news, geopolitical and geographical events, and other resources such as gold and oil that can affect the urgencies value.

## Pip Calculator

A typical pip calculator may also show the value of a pip for a particular pair based on a mini lot, micro lot, or standard lot. To use the calculator, one simply needs to enter the position details that include the currency pair, the trade size, the amount of money in the account, the position size parameters and the leverage. The calculator works out the value of the pip for each position in the chosen currency. The tool is very useful for the trader to keep track of the value of a position in the account.

## The Currency Correlation Tool/Correlation Matrix

The forex market is made up of many pairs of currencies and there exists known correlations that one can easily calculate. The correlations can either be positive or negative, and they will be more pronounced in some currency pairs than in others. Having a negative correlation indicates that the pairs will move in different directions. A positive correlation means that the pairs will move in the same direction. A trader who seeks to diversify will normally opt for the negatively correlated pairs.

## Broker Spread Comparison Tool

Many of the spread comparison sites show the spreads that are quoted by the brokers usually on major currency pairs. Majority of the spread comparison websites allow a trader to filter timeframe, session or currency pair, therefore, giving a trader an edge when selecting the broker with most affordable dealing spreads. Once the trader has selected the broker, a spread comparison tool becomes pretty useless because switching the brokers after a selection can be very costly.

## Forex Time Zone Converter

The periods when a trader chooses to participate in the market can make a major difference to their gains. The major forex trading centers in the world include London, Tokyo, New York, and Sydney and they all operate in different time zones. However, to some degree, the business hours of these centers overlap with Sydney opening the market on Monday at 5 pm NY time and closing at 5 pm on Friday NY time. One of the most useful tools that a trader can have when trading is a graph that shows the times that the different centers are operating. This is true because a trader will be able to identify the moments when the markets are overlapping, and these are usually the most active and liquid times. Remember that the three most essential ingredients of trading are volatility, liquidity, and activity.

## Forex Volatility Calculator

As seen earlier, one of the most essential elements of trading is market volatility. The currency pairs with limited ranges are barely the best currencies for trading. There is no difficulty in calculating the volatility, but with the numerous numbers of pairs available for trade in the market, it is better if the trader allows a properly programmed computer to handle the task. Typically, a forex volatility calculator will determine the volatility of every pair in real time by taking historical exchange rate information. Another aspect of a good forex volatility calculator is that it breaks down the volatility into different timeframes, for instance, weekly, monthly, quarterly, and annually. This helps the trader to determine if an option is too volatile or not.

## Forex Trading Platforms

Meta Trader 4 is the most used online trading platform, and so far, no other platform matches it. The platform has a variety of features that are literally

indispensable for a serious trader. This platform offers a wholesome technical analysis functionality which allows traders to map out currencies in real time. It also allows the trader to apply a variety of technical oscillators and other relevant indicators to the currencies. The platform also has a functionality that is fully integrated to allow the trader to trade currencies directly from the charts. An extra advantage of the Metatrader4 is that traders can use it to transact with most of the forex brokers online. Again, a large group of people use the platform; therefore, if one runs into problems when using it, he/she can ask for help. Meta Trader 4 also supports expert advisor software and automated trading. Meta Trader 4 also allows the trader to add their own parameters in the premade and custom indicators. Besides the stock exchange, MT4 allows traders to deal in other asset classes such as energy products, metals, and stocks so long as they are supported by an online broker. Doubtlessly, MetaTrader4 is by far one of the best, useful and complete forex trading tools in the market and it is obtainable for free from the website of the developer. Always open a demo account and practice before investing with real money.

## Keeping a Trading Journal

One might underestimate the importance of keeping a journal that records the history of different trades. An accurate journal is one of the most essential tools that helps a trader determine their next move. It is important to keep track of the details of each trade, for instance, the time a trade was initiated, why, and if it was liquidated, what the driver was. The trader will be able to assess his/her trading habits from this information, learn from mistakes, and mitigate risks in the future.

CHAPTER 28:

# Benefits of Forex Trading

## Liquidity

The first and most important benefit of forex trading is its liquidity. As you know, the forex market is extremely liquid meaning you can sell your currency at any time. There will be a lot of takers for it, as they will be looking to buy the particular currency. The highly liquid market can help you avoid any loss as you don't have to wait on your currency to be sold. And all of it is automatic. You only have to give the sell order, and within no time your entire order will be sold.

## Timing

The forex market is open 24 hours a day, which makes it a great place to invest at. You can keep trading during the day and also during the night if you are dealing with a country's currency whose day timings coincide with your night timings. You can come up with a schedule that will allow you to conveniently trade with all of the different countries that lie in the different time zones. You can also quickly sell off a bad currency without having to wait the whole night or day.

## Returns

The rate of returns in foreign currency trade is quite high. You will see that it is possible for you to invest just $10 and control as much as $1000 with it. All you have to do is look for the best currency pairs and start buying and selling them. The leverage that these investments provide is always on the higher side, which makes them an ideal investment avenue for both beginners and old hands.

## Costs

The transaction costs of this type of trade are very low. You don't have to worry about big fees when you buy and sell foreign currencies. That is the one big concern that most stock traders have, as they will worry about having to shell out a lot of money towards transaction costs. But that worry is

eliminated in currency exchanges, and you can save on quite a lot of money just by choosing to invest in currency.

**Non-directional trade**

The forex market follows a non-directional trade. This means that it does not matter if the difference in the currencies is going upwards or downwards, you will always have the chance to remain with a profit. This is mostly because there is scope for you to short a deal or go long on it depending on the situation and rate of difference. You will understand how this works as and when you partake in it. The main aim of investing in forex is to remain with a steady profit, which is only possible if you know when to hold on to an investment and when to sell it off. This very aspect is seen as being a buffer by traders and is the main reason for them choosing to invest in forex.

**Mediators eliminated**

With forex trade, it is possible for you to eliminate any middlemen. These middlemen will unnecessarily charge you a fee and your costs with keep piling up. So, you can easily avoid these unnecessary costs and increase your profit margin. These middlemen need not always be brokers and can also be other people who will simply get in the way of your trade just to make a quick buck out of it. You have to be careful and stave such people off in order to avoid any unnecessary costs that they will bring about. Education is key here and the more you know, the better your chances of avoiding any such frauds.

**No unfair trade**

There is no possibility of anyone rich investor controlling the market. This is quite common in the stock market where a single big investor will end up investing a lot of money in a particular stock and then withdraw from it quickly and affect the market negatively. This is not a possibility in the foreign currency market as there is no scope for a single large trader to dominate the market. These traders will all belong to different countries, and it will not be possible for them to control the entire market as a whole. There will be free trade, and you can make the most use of it.

**No entry barrier**

There is no entry barrier, and you can enter and exit the market at any time you like. There is also no limit on the investment amount that you can enter

with. As was mentioned earlier, you can invest something as big as $10,000 or as small as $10 and control the market. You have to try and diversify your currency investments in a way that you minimize your risk potential and increase your profit potential. You can start out with a small sum and then gradually increase it as you go.

**Certainty**

There is a certain certainty attached with foreign currencies. You will have the chance to avail guaranteed profits if you invest in currency pairs that are doing well. These can be surmised by going through all the different currency pairs that are doing well in the market. With experience, you will be able to cut down on your losses with ease and also increase your profits. You have to learn from your experience and ensure that you know exactly what you are doing.

**Easy information**

Information on the topic of foreign currencies is easily available on the internet and from other sources. This information can be utilized to invest in the best currency pairs. You have to do a quick search of which two pairs are doing well and invest in them without wasting too much time. If you need any other information on the topic, this will guide you through it. You can directly go to the topic that you seek and look at the details to provide there.

Apart from these, there are certain other benefits like minimal commission charged by the OTC agent and instant execution of your market orders. No agency will be able to control the foreign exchange market.

These form the different benefits of trading in the forex market but are not limited to just these. You will be acquainted with the others as and when you start investing in it.

CHAPTER 29:

# Trading Vs. Investing

In the world of stocks, one is either an investor or a trader. Let's explore what each side entails to create a clear distinction.

## Traders

Individuals who would like to make as much money as possible in the shortest time frame are called traders. The timeframe for their investments normally ranges from a few minutes to a few weeks.

Traders have a higher appetite for risk and a short-term perspective of the markets; they have a get-in get-out mentality.

There is always a significant possibility that you will make profits as a trader, but to do so, you will first have to determine the kind of trader you want to be. There are numerous types of traders out there, and the one you choose to be will depend on your personality, your capital investment and the amount of time that you can dedicate to trading.

Here are the most popular types of traders in the stock market today:

### Swing Traders

These are considered as the most efficient types of stock traders. These types of traders will base their trades on a longer time frame, then sit back and watch stocks for weeks or even months before they make a trading decision.

They follow the momentum of the market when they are buying or selling stocks, explaining their name. When the stock prices start going up, swing traders will buy whatever stocks they have their eyes on and when the prices get to a point where they feel they have reached their peak, they sell their position rapidly.

You have to be remarkably smart if you would like to be this type of a trader, as in-depth knowledge of fundamental and technical analysis is necessary. A swing trader does not need to be on the lookout the entire day, therefore, if you would like to make some money as a stock trader, but do not have enough time to dedicate entire days to the practice, this is a solid option for

you.

### Value Traders

This is the kind of trader who invests in undervalued stocks that are selling below their inherent value. For instance, if the stock of a company has been affected by various market conditions and its value drops significantly, a diligent value trader will invest in those stocks in the hope that things will get better in the future, and there will be a chance for them to make a profit. They will then sell when they feel the price has reached a more reasonable level.

### Buy and Hold Traders

These are the kind of traders who will buy stocks and hold them for an extended period until they feel that the right time to sell has come. They can even hold the stocks for decades. In most cases, these types of traders are interested in stocks of well-established companies because there is a high chance that they will make some good money out of their investment.

### Day Traders

These folk hold and exit many trading positions within one trading day. They are also known as scalpers or intra-day traders. These are the kinds of traders who expose themselves to high trading risks with the knowledge that they will get high returns if their investments turn out in their favor, making this a very attractive proposition for the masses.

Day traders buy and hold positions for as little as a few seconds before they sell. They work full-time and have to be on the lookout every minute and every second until the trade closes. This, then, is a great way to make rapid income, but not passive income.

## Investors

On the other side of the coin we have investors. Think of them as snipers waiting to take the right shot. They pick a stock that they think will increase in value, then buy and hold it.

For example, someone who bought Coca-Cola stock several years ago and now has a few million shares worth would be an investor.

Do you think that Facebook (NASDAQ: FB) will completely take over the social media scene? Will Google (NASDAQ: GOOG) dominate the

information scene for years to come? If you decide to buy stocks and for whatever reason hold onto them for the long-term you are an investor.

Just as there are different types of stocks to invest in, there are also different types of stock investors. No choice is inherently better than the other; you must choose the type of investor you want to become depending on your trading personality.

Here are the different types of investors within the stock market:

**Active Investors**

This is the kind of investor who undertakes investing as both a business and a passion. They will read everything there is to know about investing, join associations, subscribe to magazines and newsletters and dive deep into their research.

They are full-time investors who ordinarily have no other form of income. They take their investments very seriously and will invest in any stock that they feel will bring returns. They pick their stocks wisely, depending on the state of the market, the stock price behaviors and also the earnings growth, meaning they are unlikely to succumb to mistakes.

**Passive Investors**

These are the kinds of investors who wish to invest their money in the stock market but do not have time to do the legwork. Passive investors normally partner with a full-time broker because they do not have enough time to study the market.

All they are interested in is a return on their investment and not all the work that goes on behind the scenes. Sometimes passive investors may even place their money in stocks on a whim, essentially gambling that they will be able to pull some profits later down the line.

**Bargain Hunter Investors**

These investors step in and save failing companies with cash injections. If they believe a company has the potential to flourish in future, they will put up capital in return for stock and reap the rewards later down the line. Returns can be massive, but not every story has a fairytale ending.

**CHAPTER 30:**

# Trading Full-Time or Part-Time

Trading to get long term profits is called longer-term position trading. This is different from the shorter-term scalping that is day trading. If you want to head into this direction, then it is imperative you get familiar with a few strategies to employ in order to achieve success.

The most important thing you need to know is that the amount of money you inject into this venture is not going to come back in a short time and you must, therefore, be very ready to make that investment.

Below are some benefits of trading:

## Source of Income

Financial independence is the dream of every individual. Day trading can easily get you this freedom. A trader has the opportunity to trade as many times as they can in a single day. Depending on how good they are able to trade, they can earn huge profits from the trades that they engage in. The main trick into becoming a good investor depends on how well an investor can utilize the various option strategies to earn a source of income. For you to become an expert trader, you need to have some tactics that you can utilize. Those tactics set you apart from the novice traders. You might be wondering how you can get to this point while you are just getting started.

## Flexibility

We can describe flexibility in two ways. The first way is the fact that you can trade anywhere at any preferred time and you can engage in any trade you would like.

Most people do not get this, and that's why they make conclusions that options trading is a scam. Well, it is not as easy as it may seem. One has to use their mind and spend some time learning more about how it works. Once you get it right, it becomes easy for you. It is an investment that you can easily engage in and earn your profits at the end of the day as long as you know how to do it right. The other way is the fact that once a trader purchases an option, they have the opportunity to trade as many times as they can to

earn a profit.

**Insurance**

Options contracts can be utilized for insurance purposes. For a trader to use an option contract as insurance, they must build a good portfolio. Your portfolio indicates the profits an individual has made, together with the losses. A good portfolio needs to have more profits and fewer losses. As you trade, you need to ensure that you master the art of trading options.

This involves using the right trading plan and strategies to maximize your profits. Building a good portfolio is not a hard task. It is something that you can easily accomplish as long as you are committed to what you do. You keep getting better at it with every day that passes. In the beginning, you may encounter some challenges but do not allow them to prevent you from getting where you would like to get. It is also important for you as a beginner to trust the process and believe that you will make it at the end of it all. Once you establish a good portfolio, you can use it as your insurance. It ensures that you do not acquire a complete loss in case a trade goes contrary to what you expected.

**Cost-Effective**

Different options contracts are priced differently. We have some that are more expensive than others. There are a number of factors that we have to consider when it comes to pricing options. Some of these factors include; the strike price, stock price, dividends, underlying asset, and the expiry date. When it comes to the expiry date, the options contracts that have a short period before they expire tend to have low prices. On the other hand, the options contracts, whose expiry date is quite far, tend to be highly-priced.

**Limited Losses**

The mistake most investors make is that they start trading with a lot of expectations. You think that you can make money within a short period of time, without having a strategy. I will disappoint you by telling you that it is impossible. You have to play your part in ensuring that you maximize your earnings as you minimize your losses. You cannot invest blindly and still expect an income at the end of the day. A lot of effort, commitment, and dedication will be needed. Most people miss this fact, and that is why they end up making losses. Once they have incurred the losses, they conclude that

day trading is a scam. We have had a majority of the traders engage in overtrading only to end up losing every penny that they have invested. To avoid this, one has to be aware of the various option strategies. The different strategies are all aimed at increasing profits and reducing the losses. This is easily achievable as long as one is committed to learning how each strategy works and when to utilize each best.

**Limited Risks**

If you know much about investments, then you understand that most businesses, deals, or tradespeople engage in having risks. There is no single investment that an individual can engage in and fail to encounter risks. Day trading is no different from other investments. At times you will have to be open to the possibility of encountering some risks. These risks if not controlled can result in fewer profits or no profit at all. Before engaging in a trade, evaluate all the possible risks. Get to know which you can afford to minimize as you live aside those that you have no control over. This may seem like an easy task to undertake, but you need the right option strategy to do so. Depending on the type of trade you chose to undertake, you can easily get a suitable strategy to utilize. The strategy needs to be effective in minimizing the risks so you can earn more profits. As a trader, ensure you are well aware of all the option strategies that you can utilize in a trade. This knowledge allows you to make the right decisions while trading, and you easily earn profits as you reduce the potential risks.

**Make Huge Profits**

Every investor aspires to earn profits from the investments that they make. With day trading, you can make your dreams come true. One of the good things about day trading is that you can trade multiple times. As you engage in different trades, it is good to keenly observe what you do to ensure that you avoid making wrong decisions. Ensure that you evaluate all the trades that you engage in. This allows you to evaluate the possibility of incurring a loss or a profit. You get to know the trades that you can engage in and those that you need to avoid. As a beginner, avoid the trades with a high possibility of earning a loss and, at the same time, have a high possibility of earning huge profits. Such trade may seem to be good, especially if you lean on the possibility of earning huge profits. However, do not forget that both possibilities are applicable, and you can also make a huge loss. In such cases,

you will be required to make the right decisions that can result in you earning profits. You can also deal with multiple trades that earn small profits and get a huge profit at the end of the day.

**Less Commission**

Less commission means that you earn more profits. While selecting the best brokerage account to use while trading, this is one of the factors you will have to consider. Ensure that the brokerage account has fewer commissions so you can increase your income. Different accounts have different rates for their services. As you do your research, you will come across some accounts with high commissions and those with low commissions. If you go with the accounts with high commissions, it will affect your profit. You will find that a percentage of your profits will be slashed and go into catering for the high commissions. The best thing to do would be to avoid such accounts and work with those that have low commission. As a beginner, you need to properly analyze all your choices to come up with the best solution. It's a good thing that with a single click, you can get all the information you would like from the internet. The reviews given in various brokerage accounts can also help you identify the various services that they provide and their rates.

**Liquidity**

At the end of a trade, some traders like seeing the impact of their efforts on investing. Liquidity refers to the process in which an asset can be converted into cash. Upon investing in options trading, you can earn your money. This is made possible by the fact that people can buy or sell options. As the holder of an option, you can exercise your contract and get paid depending on the payment method in the brokerage account. While opening a brokerage account, some accounts will require that you fill in your bank details.

This information will be useful while buying and selling options. In some accounts, you can fill in your E-wallet details. In case you have a PayPal account, your payment can be credited or debited from your account. We have some accounts that utilize cryptocurrencies. You find that a trader can use bitcoins to sell or buy a 55 options contract.

**Profits Even with Low Investment**

As a beginner, you may find it difficult to invest a lot in an investment that you are new to. The good thing about options trading is that you can invest in

any amount you would like. Earlier on, I stated that options are priced differently. I also explained the factors that influence the pricing of options. You find that you can easily find cheap and affordable options contracts that you can engage in.

**CHAPTER 31:**

# Forex vs. Stocks

A lot of individuals today need to wander into the Forex trading business to earn some fast returns. Anyway, everybody who expects to take up this trade must realize that it is fundamental for them to know the subtleties of the business preceding taking a plunge in it.

Forex for apprentices may not be as easy as it might appear to be, however whenever traded with the correct trading strategies, there is no reason why achievement can't be accomplished. Amateurs Forex includes gaining the essentials gadgets of the trade altogether and, after that doing the business in a progressively trained way.

In this day and age, one in each five-person needs to put resources into Forex and profit right away. This has made Forex trading world's most significant trade as far as exchange volume. Up to an individual can risk and have abundant to contribute Forex trading can be a profitable business.

Web-based trading has made things stunningly better whereby an individual can trade Forex from the solace of their homes, maintaining a strategic distance from the issues voyaging. This has likewise made Forex for tenderfoots too easy to even think about venturing into as they can get everything dealt with on the web. To make progress with apprentices, Forex, one should play the diversion particularly well. Legitimate preparation and practice, however, can make novices trade like veterans and reap high returns.

Forex for tenderfoots turns into an easy undertaking with a Forex broker. The Forex brokers empower novices to work with a demo account, which can be acquired for nothing. It is seen that fledgling Forex customers are tricked in by the Forex brokers by offering a free demo account, giving them a superior comprehension of the business, and would likewise provide the customers a chance to contribute virtual money instead of real and avoid any risk.

This, in the end, causes the customers to pick up a lot of trust in the trade and leave them urged enough to join with the broker to contribute hard money.

There are various presumed Forex instructional exercises nowadays, which can give a lot of expertise to apprentices Forex applicants needing to put resources into Forex. If not all, at any rate, the rudiments of the Forex trading business, which is, however, the learning, an apprentice Forex competitor need to know, can be accomplished through a decent Forex instructional exercise.

After an apprentice effectively finishes the instructional exercise classes, they can apply the essential trading tips that they have learned in the instructional exercises in the underlying period of their trade execution.

Receiving a decent Forex trading methodology is one of the essential activities with regards to Forex for amateurs. This won't just come convenient in limiting misfortunes yet also in defeating them also. Taking the assistance of a real risk/compensate proportion is another important fledgling Forex tip. This demonstrates the sum planned to be made in the trade must be set preceding trade execution and must be equivalent or more than the quantity a trader can stand to lose.

Followers of this tip can doubtlessly discover Forex for novices intriguing in a higher number of ways than one. Fruitful Forex trading accompanies tolerance, determination, promptness, and diligent work. A taught methodology towards benefit making can assist an individual with novice Forex in a long way.

**Options and Stocks for Beginners**

Options are a form of financial derivative, and all that means is that it derives its value from an underlying security. For example, a common type of Option is the Stock options – which derive their value from the underlying company stock's market performance. However, Options can and are traded using other derivatives such as commodities and exchange-traded mutual funds

**Commodities and Futures (ETF)**

The provenance of financial Options is in the trading of Commodity and Futures contracts as these were agreements between two parties, typically farmers and traders looking for a future price for their next harvest crops.

The futures markets developed to help traders hedge and speculate on commodities, especially in the agricultural market. The options market, in turn, evolved from the futures market, hence, the similarities and the shared

concepts. But, because commodities and futures deal with a physical asset, there are slight differences as to how they work. The seller of a commodity or futures option is still obligated to buy or sell the stock. However, exercising the contract is different as commodities and futures contracts set the price for delivery of a specific quantity of a physical item – a bushel of wheat, for example - to be delivered to a particular location on an agreed date. There is nothing similar in stock options as there is no need for physical delivery of anything.

Commodity options are options listed on such things as corn, oil, gold, or interest rates. Futures, on the other hand, are options trading on the underlying value of futures contracts, typical futures on commodities and currencies. Futures contracts are, therefore, derivative contracts – their value is derived from the underlying commodity/asset - that give holders the obligation to buy or sell an asset at a specified future date for a specified price. Where there is a similarity between stock options and commodities and futures contracts is that they lock in the price and quantity of an asset and have predetermined expiration dates. But in both cases, they are in themselves tradable assets, which means you can trade away your rights and obligations if you wish to exit the contract early.

**Equity Options**

An equity option is an option based on the price of a share of stock of a company. However, options are not available on all stocks, but some do not have options attached to them. It is up to the exchanges to determine whether or not to offer an option – based upon perceived demand – it is not up to the companies that issue the stock.

Most equity options are priced at 1 contract per 100 shares. Equity options are what most people think of when they contemplate Options.

**Index Options**

The concept behind trading options in indexes is that if you can buy an option on a stock of a particular company within a sector says technology, then why does the exchange not make available an option on that market sector as a whole?

That’s the idea behind index options; you can bet on the sector performance and not have to drill down to a specific company.

The result has been a proliferation of Index options based on the performance of different market indices. There are options on the S&P 500, NASDAQ, and FTSE. Trading in indexes has become a very popular alternative to trading in stock options as they can represent a collection of diverse assets.

This means that a trader can spread their investments across several sectors of interest. The index works by pooling together several stocks in the same sector or across diverse sectors, and the performance aggregate is used to measure the price of the group. There are many indexes, and these include stocks, commodities, and futures, as they are all used as components of an index.

But an index is just a logical category a convenient grouping of other securities so you can't buy an index directly. Instead, you buy a security that tracks the value of the index. An example of such an option would be one that tracked a particular ETF that owned the stocks in a particular index such as Standard & Poor's (S&P) 500 Index.

**Exchange-Traded Funds (ETFs)**

ETFs are mutual funds that have become very popular trading vehicles as they can be traded like stocks on an exchange. Most ETFs are designed to track an index or an underlying sector, so technically, ETFs are not derivatives. However, they are often referred to as quasi-derivatives. This is because, unlike other indexes, they can be traded and also because they are not necessarily holding exactly the same securities of the index that they are tracking. For example, some leveraged ETFs use swaps to mimic the action of the underlying index while adding leverage.

ETFs allow you to trade on their underlying indexes, directly or through options. One of the most popular and well-known ETFs is the S&P 500 SPDR (SPY).

**Stocks and bonds**

Buying a company's stock gives you part ownership in that company, whereas buying bonds makes you a debt holder. Each position has its risks and rewards. However, when we bring Options into the equation, we can see that the three assets, stocks, bonds, and options, have very different risk and reward profiles. For example, although stocks give you a piece of the company, and bonds offer you income, options offer you no ownership of

any tangible assets, but all three can lead to a total loss of investment.

**Interest Rate Options**

These are sometimes better known as yield-based options, as they trade on the interest rate on a specific type of bond. With this type of Option, calls (buying) become more valuable as interest rates rise, and interest rate puts (selling) become more valuable as the rates fall. Importantly, the underlying value is the interest rate and not the value of the bond itself.

Because interest rates aren’t securities and can’t be traded or exchanged as such, the settlement is in cash.

**Miscellaneous Options**

The way that the different options exchanges make money and compete with one another is when they develop new innovative types of contracts that capture the imagination of hedgers and speculators. As an option is just a contract, which is based on the price of another asset, options can be drawn up for just about anything where someone might want to guarantee a price, and someone else might want to speculate on that price. As a result, exchanges are always trying out new option types so you can find options on different measures of market sentiment, i.e., whether it's optimistic or pessimistic about different economic outcomes.

**A swap**

This is a type of insurance contract whose terms are privately agreed upon by the participants. It is an over-the-counter style option as they are non-exchange traded options.

They are often used to bet on the direction of just about anything, including the weather, that the two parties agree upon. Swaps are by sophisticated design securities, and so they are not available to individual investors. This is due to the lack of regulations and the often complex financial and legal requirements required to be signed before you can trade them.

**Trading in Options**

As opposed to investing in stock or assets, trading Options is often a decision based upon a short-term analysis. An Option having a predetermined time period, a time-to-live, will have by design an expiry date. As a result, Options are renewable and can be resold many times. This makes them suitable for

both trading, over the short term or over longer periods delivering income when the value of the underlying stock rises, falls, or even moves sideways.

**CHAPTER 32:**

# Create a Systematic Investing

Many people who decide they want to get into the stock market are anxious to do so. However, it's important to prepare before you start buying shares. The first thing that every person should do is make sure that they have an emergency fund of cash stashed away, and that you will not use it to buy stocks or to cover losses.

The purpose of an emergency fund is to have money on hand in case you hit the skids with a job or lose other sources of income if you have a car or medical emergency, or your basement floods and you need to pay for expensive home repairs. Recent surveys have shown that far too many Americans have been neglecting basic savings, and many could not even meet a $400 emergency car repair. If you are in a situation where you couldn’t pay for a $400 car repair, then you are not quite ready to get into the stock market.

You should work to save up a little bit of money first. Many experts recommend that you save up around six months of required funds to pay all your living expenses, and that is good advice, however that doesn’t mean you have to wait that long to start investing.

Another important part of preparation is education. And congratulations, by reading this you’ve demonstrated that you are the kind of person who is willing to take time to learn before jumping into something! That is a very important consideration, especially when money is involved. You should also look into courses that are available online and read as many as possible, especially when trying to determine what kind of risks you are willing to take and how to marry your investment goals with that. There are many online courses available on basic stock investing, day trading, swing trading, options, and other topics.

In recent years the development of simulators is one of the most exciting tools for education. These can be really useful, especially if you’ve never done self-directed investing before, but especially for those who are looking to be day traders, swing traders, or trade options. Practice makes perfect as

they say, and that’s as true with investing and trading as it is with anything else. If it’s important for a football player to practice before a game, it’s important for a new trader to practice day trading or options trading before putting real money on the line.

One problem with investing and trading is that emotions ride high. It’s completely natural to experience emotional highs and lows as the stock market does its usual roller coaster ride. However, what you don’t want to do is let emotions start guiding your decisions and taking you over.

The process of being guided by emotion can start at the very beginning when you choose your very first stock to invest in. Ask yourself a question – why are you choosing that particular company? Are you picking different companies because you think they are cool, or because you are really taking a cold hard look at company fundamentals? You should be selecting companies based on whether or not they meet your investment goals. So you should be looking at their earnings, their future prospects, the P/E ratio and other important metrics that will help you decide whether or not a company is 1) in good shape both now and for the long term future as far as you can see it, and 2) that the company actually helps you meet your investment goals.

Maybe you are in love with Apple. But being in love with Apple is not a good enough reason to buy stock in Apple. If Apple doesn’t match up with your investment goals, you should be looking elsewhere.

Emotion has a huge influence when people are facing losses. People panic and sell off. When the Dow Jones starts declining, people start moving their cash into “safe” investments, many that these days don’t even pay hardly anything like money market funds. Some people don’t even do that and just sell out and take the cash.

As an investor, you need to be disciplined. The courses of action described in the last paragraph that is governed by fear and panic are not the courses of action that a disciplined investor is going to take. If you are a swing trader and the market is declining, then either you’re going to sell, or you’re going to be shorting the stock. If you are a long-time investor, however, you most certainly shouldn’t follow the lemmings over the cliff. What you should be doing is looking at a downturn as a buying opportunity. So, you should be loading up on shares, but don’t do it all at once. When the market enters a downturn, nobody can be sure how low it's going to go, so you want to make

disciplined, periodic purchases the way you always do. Dollar cost averaging always works when you are in it for the long haul. That doesn't mean you won't miss some opportunities, but over time the market will rebound again, and by the time you are in your retirement years, the prices will be much higher than they were when you originally invested in most cases.

There are going to be some cases when you're going to want to bail. An individual stock can decline for many reasons, and sometimes there is a point of no return. For example, Bear Sterns crashed from $170 a share to $2 a share over a matter of a few weeks. If you had invested in Bear Sterns, then you should have been studying the situation closely and you would have gotten out early.

So, you might want to bail from an individual stock when the data tells you that this is the right course of action. But you never get out of any stock simply based on panic. Know what the fundamentals are of the company.

Emotion works the other way too. When it seems like a stock simply goes up and up, people can start getting giddy about it. You might be tempted to put your entire life savings into that one stock. But that is a bad idea, no matter how good the stock is. As we've mentioned before, it's great to know that Amazon increased so much that an investment of a few thousand would have made you a millionaire, but hindsight is 20/20. Right now, it's impossible to know which if any social media companies are going to actually bank profits and still be around in 20 years, so it would be foolish to put your life savings into one. The so-called investor who goes around claiming to know what the proceeding sure thing is can be called nothing more than a fool.

Another problem is people get emotionally invested in one company. Maybe it's because of the mission of the company or the products it makes that people think are going to "change the world." But when you get emotionally invested in a company, you start becoming irrational. Good examples include Tesla and Theranos. Let's take the latter case. Theranos claimed to have invented a revolutionary means to let people test their blood and to have medications delivered. It became clear that it was a sham, but the people who were emotionally invested in the company and the female CEO were literally fooled about it — and some still are even though it's clear now that Theranos is done and the CEO may even be facing charges.

In the case of Tesla, the jury is still out. They make high-quality products but

have problems with delivery and scaling. They may yet overcome those problems. But if you talk to many Tesla investors, they are zealots about it. If Tesla ends up going down the drain, many of the investors may go down with it. Is it worth it?

It is important to avoid making rookie mistakes especially when it comes to money. Here are the 10 tips on avoiding the classic mistakes on stock market for a beginner.

**Not Having a Regular Investing Plan**

Make sure that you have a plan to invest on a regular basis at fixed amounts. Don't worry what the amount is, you can grow it but you should have a minimum amount that you can contribute each month. Even if you are only buying one share a month right now, that is a start, you can increase the amount as your ability to contribute grows.

**Not Doing Analysis**

Many new investors just buy whatever stock appeals to them at the moment. At the start of your investment plan and then once a year thereafter, you should set up specific stocks that you are going to buy, and then stick to purchasing them at least once a month in quantities that you have decided on beforehand.

**Not Diversifying enough**

Many investors buy stock in a few companies and think they have a diversified portfolio. If you have fewer than 15 companies that you are investing in, then you are not really maintaining a diversified portfolio.

**Not Diversifying by Sector**

Remember that you should not put all of your money into a single sector or industry. Take some time to find companies in different sectors besides the one you are interested in.

**Panic during Downturns**

Never exit the market during downturns. This is a massive mistake that millions of people make – and they do it over and over. As a long-term investor, you are not worried about downturns, which are going to be short events when compared to your entire investment history. In fact, you should

invest in more stock, not less when there is a downturn so that you can get discount prices.

**Changing stocks too much**

If you have found good companies to invest in, stick with them. You don't need to be continually switching around your investments and doing so will actually cost you in the long run.

**Not Rebalancing**

Make sure you rebalance your portfolio at the end of the year, so it continues to help you achieve your long-term goals.

**Avoiding ETFs**

Many ETFs have growth rates that outpace the market and you also get the benefit of massive diversification. You should include at least a few ETFs in your investment plans.

**Sticking by a Company Too Long**

While you can get out of stocks too early, you can stick by them too long as well. If it's clear that a stock isn't growing to help you achieve your wealth and income goals, don't be afraid to back out of it.

**Using Money, You Can't Afford**

You may not want to face it but paying off debt first is more important than investing. A debt with a 7% interest rate means you are losing 7% a year on it. So, paying it off is the same as investing in the S & P 500.

# Conclusion

Futures are financial agreements or contracts in which the parties involved agree to trade an asset at a future date with a fixed price. It can either be on buying an asset or selling of an asset at a future date and a fixed price as agreed by the trading parties. Futures are not subject to market or price fluctuations, irrespective of the market conditions or price of the asset on which the future has been agreed over; the trading parties must fulfill their obligation either to sell the tradable asset or buy the tradable asset as at when due. It is made use of leverage, which requires the parties to deposit a percentage of the total price agreed on with a broker.

To invest in futures, you need the services to a broker whose role is to process access to the market for you. Choose only credible futures brokers to avoid getting dumped and abused. The various types of futures include commodity futures, currency futures, stock index futures, US Treasury futures, gold futures, etc.

The advantages of futures include speculation purposes, protection of price against price instability and market volatility, the compulsion of contract, and deposit of a percentage of the contract. Futures are used by investors for speculation purposes. For example, it is used by investors to speculate on the path or direction in which the price of a given asset or security is going to take.

Another advantage of futures is that prices are protected and secured. Futures lock down prices for the duration of its existence. It does not matter if the price of the underlying asset or commodity goes up, remains the same, and the price falls, the price that is set at the signing of the future remains. Individuals use it to protect themselves from possible price instability, while corporations use it to protect the prices of what they sell from violent and unfavorable price movements.

Futures are obligations binding on the parties that are signatories to it. Futures are a compulsory contract and cannot be dissolved until the terms of the futures are met. With futures, you can rest assured that the other party, even though it does not want to fulfill the terms of the contract any longer,

will be forced by the legal implications.

Futures allow for a deposit of a percentage of the contract with a chosen broker. This payment is used to show and assure the other party of seriousness to go through with the terms and conditions of the futures.

Some of the disadvantages of futures include: it is not suitable for day trading, loss of margin, missing out on favorable price changes, and losses. Futures are not suitable for day trading as they have a future date in mind, which exceeds the trading window of a day trader. Futures are more suited to long term trading.

Futures make use of leverage, which means the trader is not obliged to deposit a hundred percent of the contract. In cases where the terms of the future do not favor the investor, the investor ends up losing his margin advantage.

Futures are useful when the price of the asset to be traded is favorable with the terms of the future. Investors can miss out on exciting and favorable price changes due to his or her obligation to the terms of the futures. It also applies to companies also involved in futures.

Futures have their prices fixed no matter the condition, rain or sunshine. Futures can be a disadvantage to investors and corporations when instead of recording profit, the corporation or investor records losses caused by an unfavorable price movement. Futures are like a legendary two-edged sword; on one side, it can bless the investor or corporation with favorable price movements and result in bargain deals while, on the other hand, it can result in unfavorable price movements for the investor or corporation and result in losses and misses.